Medway Council Serving You

Agenda Item: 5(C)

BUSINESS SUPPORT OVERVIEW & SCRUTINY

2 FEBRUARY 2010

TREASURY MANAGEMENT POLICY STATEMENT, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2010/2011

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Summary

This report seeks the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement along with Treasury Management Practices and associated Schedules. The report incorporates changes that arise from the new CIPFA code and CLG consultation in light of the Icelandic situation and financial crisis.

1. Budget and Policy Framework

1.1 Business Support Overview and Scrutiny is responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement along with Treasury Management Practices and associated Schedules

1.2 Agreeing the Treasury Management Policy Statement, Treasury Management Strategy, Annual Investment Strategy, MRP

1.3 Policy and setting of prudential indicators is now a matter for Council whereas in previous years only the prudential indicators will have been determined in this way.

1.4 The Chairman has agreed to accept this item as an urgent item for consideration at this meeting to enable this report to be scrutinised by this Committee prior to it going to Cabinet on 16 February 2010.

2. The Revised CIPFA Treasury Management Code of Practice 2009

2.1 The experience of the Icelandic situation in 2008 has led CIPFA to amend the CIPFA Treasury Management in the Public Services Code of Practice (the Code). It is also now a requirement of the revised Code that the Council should formally adopt the Code and the revised Treasury Management Policy Statement as part of standing orders and financial regulations. Appendix 1 sets out the requisite resolution that the Council will need to adopt. Appendix 2 details the Treasury Management Policy Statement.

2.2 The revised Code places particular emphasis on four key points of principal as set out in Appendix 1 but also emphasises a number of key areas including the following: -

a) All councils must formally adopt the revised Code and four clauses;

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities;

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out;

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organization;

e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support;

f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits;

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities;

h) The main annual treasury management reports must be approved by full Council;

i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved;

j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body;

k) Treasury management performance and policy setting should be subjected to prior scrutiny;

l) Members should be provided with access to relevant training;

m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training;

n) Responsibility for these activities must be clearly defined within the organisation; and

o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

2.3 This strategy report has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be approved annually by Council and there will also be a mid year report. In addition there will be monitoring reports and regular review by members in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

2.4 This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code:

Table 1 – Reporting Arrangements

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Policy Statement / Treasury Management Strategy / Annual Investment Strategy / MRP policy	Business Support Overview and Scrutiny , Cabinet then full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Business Support Overview and Scrutiny, Cabinet then full Council	Mid year
Treasury Management Policy Statement / Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Full Council	As and when necessary
Treasury Management Practices	Business Support Overview and Scrutiny then Cabinet	Annually before the start of the year and as and when amendments proposed
Treasury Management Monitoring Reports	Cabinet	Part of regular financial monitoring cycle
Annual Treasury Outturn Report	Cabinet then Audit Committee	Annually by 30 September after the end of the year

3. Revised CIPFA Prudential Code

3.1 CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -

- authorised limit for external debt
- operational boundary for external debt

- actual external debt.

3.2 However, all indicators are to be presented together as one suite. In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

4. Revised Investment Guidance

4.1 It should also be noted that the Department of Communities and Local Government is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. A separate report will be made to members to inform them when this guidance has been finalised. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

5. Treasury Management Strategy for 2010/2011

5.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. The investment strategy is set out in section 16 below which details the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.3 The suggested strategy for 2010/2011 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services.

5.4 The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

6. Treasury Management Practices and Schedules

6.1 In exercising the delegations to fulfil the responsibilities set out in the Treasury Management Strategy the Council will establish a set of standards to govern the manner in which these responsibilities are exercised. These standards are referred to as the Treasury Management Practice statements and are supported by the requisite Schedules that flow from the exercise of those Practices. These documents are attached at Appendices 9 and 10 and are the detail by which the Chief Finance Officer will ensure the proper stewardship of the Treasury function is maintained.

7. Balanced Budget Requirement

7.1 It is a statutory requirement, for the Council to produce a balanced budget. In particular, it is a requirement for a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
- increases in running costs from new capital projects;

are affordable within the projected income of the Council for the foreseeable future.

7. Treasury Limits for 2010/2011 to 2012/2013

7.1 It is a statutory duty, for the Council to determine and keep under review how much it can afford to borrow. This is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

7.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

7.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit can be found in appendix 6 of this report.

8. Current Portfolio Position

8.1 The Council’s treasury portfolio position as at 31 March 2010 is anticipated to be:

Table 2 – Anticipated treasury position as at 31 March 2010

		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	96.48		
	Market	101.80	198.28	3.81
Variable rate funding	PWLB	0.00		
	Market	0.13	0.13	0.50
Other long term liabilities			0.00	
Gross debt			**198.41**	
In house Investments		81.80		2.92
Investec Investments		22.24		1.15
Total investments			**104.04**	
Net debt			**94.36**	

9. Borrowing Requirement

9.1 The Council's borrowing requirement is as follows and indicates a lack of external borrowing for the foreseeable future because of the relative position of investment returns and rates for new borrowing:

Table 3 – Borrowing requirement

	2008/09	2009/10 to 2012/13
	£'000 actual	£'000 probable
New borrowing	14.15	0.00
Replacement borrowing	60.40	0.00
Total borrowing requirment	74.55	0.00

10. Prudential and Treasury Indicators for 2010/2011 – 2012/2013

10.1 Prudential and Treasury Indicators as set out in appendix 6 to this report are relevant for the purposes of setting an integrated treasury management strategy.

10.2 The Council adopted the CIPFA Code of Practice on Treasury Management originally on the 17 February 2002 and the revised Code will be recommended for adoption on 25 February 2010.

11. Prospects for Interest Rates

11.1 The Council has appointed Sector Treasury Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. The view of Sector based upon a central case is that rates will be:

- Year end 2010 - 0.50%

- Year end 2011 - 1.50%
- Year end 2012 - 3.50%
- Year end 2013 - 4.50%

11.2 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

12. Borrowing Strategy

12.1 Sector forecast for the PWLB new borrowing rate is set out below:

Table 4 – Sector forecast PWLB and Bank rate

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Mar-12	Mar-13
Bank rate	0.50%	0.50%	0.75%	1.00%	1.50%	3.50%	4.50%
5yr PWLB rate	3.05%	3.20%	3.30%	3.40%	3.60%	4.60%	4.85%
10yr PWLB rate	4.00%	4.05%	4.15%	4.30%	4.45%	5.00%	5.15%
25yr PWLB rate	4.55%	4.65%	4.70%	4.80%	4.90%	5.20%	5.35%
50yr PWLB rate	4.60%	4.70%	4.75%	4.90%	5.00%	5.30%	5.45%

12.2 As referred to in paragraph 9.1, due to the very low interest rates being earned on investments and restrictions to mitigate counterparty risk, officers will be repaying existing and deferring taking out new debt. However, in the event that it was deemed advantageous to borrow then we will evaluate the economic and market factors to form a view on future interest rates so as to determine the manner and timing of decisions to borrow.

13. External v. internal borrowing

13.1 Table 5 below shows the anticipated gross and net (gross less cash balances) debt. The difference between the two figures thereby indicates the size of potential investments. With low interest rates earning historically low sums for investments it is advantageous to utilise those funds to pay off debt and or finance capital spend. This strategy additionally reduces the credit risk of investing in the markets.

Table 5 – Comparison of gross and net debt positions at year end

	2008/09 actual	2009/10 probable outturn	2010/11 estimate	2011/12 estimate	2012/13 estimate
	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	248,807	198,408	173,361	163,325	153,312
Cash balances	134,747	104,045	73,285	58,657	44,044
Net debt	114,061	94,363	100,077	104,668	109,268

13.2 It is anticipated that the opening difference between gross debt and net debt, will be £104,045,000 as at 31 March 2010, this is a reduction of some £30m from 31

March 2009 attributable to repayments of debt as loans fell due for repayment in the period, together with using internal funds rather than external borrowing to finance capital projects.

13.3 Over the next three years, investment rates are expected to remain below long term borrowing rates and so value for money considerations would indicate that best value is obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short-term savings.

13.4 However, short term savings achieved by avoiding new long term external borrowing in 2010/2011 need to be weighed against the potential long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

13.5 Against this background caution will be adopted with the 2010/2011 treasury operations. The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. Decisions made will be reported in accordance with the arrangements set out in Table 1.

14 Policy on borrowing in advance of need

14.1 The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

14.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

15. Debt Rescheduling

15.1 PWLB introduced a new rates structure on 1 November 2007 that differentiated between the rates applied to new borrowing and those for the repayment of existing debt. This has meant that PWLB debt restructuring is now much less attractive than it was. However, savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans or other market loans in rescheduling exercises subject to the level of penalty imposed by the PWLB for early redemption.

15.2 As short term borrowing rates will be considerably cheaper than longer-term rates, there are likely to be significant opportunities to generate savings by switching from long-term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt will cause a change to the Council's maturity profile which would also require careful consideration.

15.3 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined in paragraph 12 above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

15.4 The rates differential referred to in paragraph 15.1 has been the subject of much discussion and the DMO / PWLB have issued a consultation document with suggested options to revise the methodology used to calculate the early repayment rate. The consultation period ended in January 2010 and officers will monitor developments in this area and may amend its strategy if significant changes are introduced.

16. Annual Investment Strategy

16.1 Investment Policy

16.1.1 The Council will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any revisions to that guidance, the Audit Commission's report on Icelandic investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). To comply with these documents the Council's investment priorities are now:

(a) the security of capital; and
(b) the liquidity of its investments.

16.1.2 The yield on investments, whilst clearly of importance to the budget scenario for the Council must be secondary to these principles. The risk appetite of the Council is low in order to give priority to security of its investments.

16.1.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

16.1.4 Investment instruments identified for use in the financial year are listed in appendix 7 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices "Schedules" (See appendix 10).

16.2 Creditworthiness policy

16.2.1 The Council's investment portfolio is split between the in-house team and our fund manager Investec. The strategies adopted by these two organisations differ with the in-house team focusing on fixed term deposits, whilst the fund manager will vary the mix of the portfolio to include trades with gilts and certificates of deposits depending upon market conditions. As such the in-house team and Investec will compile, use and be responsible for their own counterparty lists. However, the

Council must equally ensure that it is satisfied that the method used to compile both the in-house and Investec counterparty lists is robust enough to ensure that the Council's position is protected as much as possible given the overall investment strategy adopted.

16.2.2 Full details of the processes adopted for assuring the creditworthiness of potential counterparties are shown in the Treasury Management Practices "Schedules" (see Appendix 10).

16.2.3The in house team uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and combines credit ratings, credit watches, credit outlook and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments.

16.2.4The Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies (Fitch, Moody's and Standard and Poors) to determine creditworthy counterparties. One of the companies (Moody's) are currently very much more aggressive in giving low ratings than the other two agencies. A minimum approach, driven by Moody's, would leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

16.2.5 All credit ratings will be monitored continuously by officers. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

16.2.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and other intelligence, such as information on government support for banks and the credit ratings of that government support.

16.2.7 Investec use the following methodology to compile its counterparty list:

16.2.8 Three key elements are continuously addressed.

(a) Ratings set by Standard and Poors and Fitch IBCA

(b) Credit Default Swap levels (CDS's)

(c) Subjective Overlay

16.2.9 The Fund Managers “score” the markets current attitude to our counterparties on the standard lending list.

16.2.10Scores are given for the following three important tests:

1. Will a bank buy back its own certificates of deposits (CDs) from us?
   If the answer is “Yes” this is seen as a signal that there is satisfactory liquidity and a low score will result. A ”No” will lead to a high score to reflect the more restricted liquidity and the need to use the secondary market in order to dispose of a holding.

2. Is the bank a frequent or rare issuer of CDs?
   Frequent issuers are likely to be less attractive in the secondary market (e.g. investment houses “may be full of the name” or the issuing bank may be viewed as having an above average need for new funding). Rare issuers will be more highly regarded.

3. Do CDs issued by the banks trade “well” in the secondary market?
   The market’s appetite for CDs is seen as a signal about credit concerns or otherwise for any bank.

16.3 Country limits

16.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that would currently qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be maintained by the Chief Finance Officer in accordance with this policy.

16.3.2 There is some concern that the UK sovereign rating, which is currently AAA, will be downgraded because of the economic indicators. In the unlikely event that the rating drops to AA- then a report will be presented to members detailing options for the way forward in the event of a further fall.

16.3.3 The country limit will be reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save for the United Kingdom with no limit.

16.4 Investment Strategy

16.4.1 In-house funds*:* The Councils in-house managed funds are derived from core balances and cash flow activity. The major part of these funds would normally be available for medium-term investments (less than 3 years). However the policy of running down balances to reduce credit risk and revenue costs from borrowing as against minimal investment returns, means that such medium-term investments are very unlikely. Officers will monitor this position and if advantageous, then investments will accordingly be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

16.4.2 Shown below are investments already made that extend into 2010/2011

	Amount £m	*Maturity*	*Rate*
NatWest Bank (Flippable Range Accrual)	*10*	*26/09/2011*	*0.35% over 3mth LIBOR reset every 3 months. Current rate 0.955%*
Bank of Scotland	*5*	*08/04/2010*	*1.1%*

16.4.3 Bank Rate has been unchanged at 0.50% since March 2009 although most commentators now expect rates to commence rising in quarter 3 of 2010 and then to rise steadily from thereon to 4.5% by the end of 2012/2013.

16.4.4 There is downside risk to these forecasts if recovery from the recession proves to be weaker and slower than currently expected.

16.5 End of year investment report

16.5.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Outturn Report.

16.6 External fund manager

16.6.1 £22m of the Council's funds are externally managed on a discretionary basis by Investec Asset Management.

16.6.2 The Council's external fund manager will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines, duration and other limits in order to contain and control risk.

16.6.3 Investec are currently forecasting a return of between 1% and 2% for 2010/11. Investec traditionally have had a significant trading position in gilts etc as opposed to the in-house team that deals more in term deposits. With this fundamental difference in tactics it may be advantageous during 2010/11 to move some in-house funds to Investec Asset Management to take advantage of market conditions. This will be reviewed as the year progresses.

16.7 Policy on the use of external service providers

16.7.1 The Council uses Sector Treasury Services as its external treasury management advisers.

16.7.2 The Council uses Natwest (part of Royal Bank of Scotland (RBS)) to provide day to day banking facilities including investment brokerage. The current cost of this service is some £78,000 pa under a contract arrangement scheduled to end in September 2010. Officers are firmly of the opinion that the inconvenience, risk and cost to the organisation of changing this arrangement dictates that the contract should be indefinitely extended subject to satisfactory performance and value for money being demonstrated.

16.7.3 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

16.7.4 The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will 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.

16.8 Scheme of delegation

16.8.1 The scheme determines the respective responsibilities for Council, Cabinet and Overview and Scrutiny and is set out at appendix 4.

16.9 Role of the section 151 officer

16.9.1 The delegation of functions from Cabinet is set out in the Constitution (chapter 3, section 6.15) as 'to be responsible for all borrowing, investment, and financial decisions, such decisions to be consistent with the Council's treasury policy statement'. The specific areas of that responsibility are described in appendix 5.

17. Kent County Council (KCC) Local Government Reorganisation (LGR) Debt

17.1 The charge for the share of KCC debt for which Medway Council was responsible on local government reorganisation is based on the current average cost of debt for the County Council as a whole. With borrowing costs being relatively low this figure has been decreasing year-on-year as the County has taken on cheaper new debt. However, the County rate remains relatively high compared to current PWLB rates and our own average debt rate of 3.8% for 2009/10. The outstanding principal at 1 April 2010 will be £49.1m and it would be advantageous for the Council to take direct control of its element of the debt portfolio albeit the requirement for nil detriment to both parties is a constraint. Officers will continue to explore opportunities with KCC to achieve transfer to Medway at nil detriment to each authority by 31 March 2011.

Table 6 - Current and Historical Rates of Interest Charged on KCC LGR debt

Year	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Estimate	2010/11 Estimate
Rate	5.77%	5.74%	5.51%	5.08%	5.28%

18. Minimum Revenue Provision

18.1 The Minimum Revenue Provision is explained and the Policy Statement for 2010/2011 is set out at Appendix 3.

19. Risk management

19.1 A key driver for the review of the code has been the exposure to risk evidenced by the Icelandic investments and more generally by the financial crisis. Risk and the management thereof is a feature throughout this report but is dealt with in some detail in TMP 1 of Appendix 10.

20. Consultation

20.1. Officers have consulted extensively with the Council Financial advisor, fund manager and other local authorities during the compilation of this strategy.

21. Financial and legal implications

21.1 The financial and legal positions are set out throughout the main body of the report.

22. Recommendations

22.1 Overview and Scrutiny are requested to scrutinise the Treasury Management Strategy, Treasury Management Practice statements and Schedules and forward any relevant comments for Cabinet's consideration on 16 February 2010.

Background Papers

CIPFA Treasury Management in the public services guidance notes for Local Authorities Fully revised Third Edition 2009.

CIPFA Treasury Management in the public services code of practice and cross sectoral guidance notes Fully revised second Edition 2009.

CIPFA The Prudential Code for Capital Finance in Local Authorities Fully revised second Edition 2009

Communities and Local Government changes to the capital finance system – consultation November 2009

CIPFA Treasury Management panel bulletin – Treasury Management update December 2009

Background advisory papers held by officers within the Finance Support division.

APPENDICES

1. The revised CIPFA Treasury Management Code of Practice 2009

2. Treasury Management Policy Statement

3. Minimum Revenue Provision

4. Treasury management scheme of delegation

5. The treasury management role of the section 151 officer

6. Prudential and Treasury indicators

7. Specified and non specified investments

8. Approved countries for investments

9. Treasury Management Practices: Part 1

10. Treasury Management Practices: Part 2 The Schedules

The revised CIPFA Treasury Management Code of Practice 2009

INTRODUCTION

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the council, board or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

The revised Code has also set out various requirements which have been summarised in paragraph 2.2 of the latest Treasury Management Strategy Statement.

RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, 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 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. This organisation (i.e. Full Council) 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. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates Business Support Overview and Scrutiny to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

APPENDIX 2

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as: “The management of the authority’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.

3. This organisation 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.”

APPENDIX 3

Minimum Revenue Provision

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

The share of Housing Revenue Account CFR is not subject to an MRP charge.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that:

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments,

b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

4. Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Minimum Revenue Provision Policy Statement 2010/11

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2007/08, and assessed MRP for 2007/08 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Council policy for the calculation of MRP will be:

1. For all Government supported borrowing the ‘Regulatory Method’ at 4% of the adjusted Capital Financing Requirement (CFR) will be used.

2. The ‘Asset Life’ method will be utilised for all non supported borrowing, MRP will be charged over a period commensurate with the estimated useful life applicable to the nature of expenditure or the planned duration of the invest to save scheme using either the equal annual instalment method or annuity method if more appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

APPENDIX 4

Treasury management scheme of delegation

(i) Full council

- Receiving, reviewing and approving reports on treasury management policies.
- Receiving and reviewing mid year report.
- Approval of annual strategy.

(ii) Cabinet

- Recommend treasury management policies and strategies to Council.
- Review and approve treasury management practices.
- Recommend treasury budget for approval by Council.
- Receive regular monitoring reports on treasury activity.

(iii) Business Support Overview and Scrutiny

- Scrutinise the treasury management policy, strategies and procedures, making recommendations to Cabinet as appropriate.
- Scrutinise the Cabinet performance reports on treasury activity.

APPENDIX 5

The treasury management role of the section 151 officer

The S151 (responsible) officer

- Monitor the cashflow position of the authority
- Make such borrowing and investment decisions as necessary to be consistent with strategies as approved by Council.
- To maintain the bank balance within approved limits.
- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submit regular treasury management policy reports
- Submit budget proposals and budget variations
- Receive and review treasury management information reports
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensure the adequacy of internal audit coverage of treasury functions, and liaison with external audit
- Recommend the appointment of external service providers
- Maintain of the in-house counterparty approved list
- Monitor the Investec counterparty approved list.

APPENDIX 6

Prudential and Treasury Indicators

Prudential indicators	2010/11 estimate	2011/12 estimate	2012/13 estimate
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	103,363	6,574	3,776
HRA (applies only to housing authorities)	4,150	4,150	4,150
TOTAL	107,513	10,724	7,926
Ratio of financing costs to net revenue stream			
Non - HRA	3.19%	2.94%	2.69%
HRA (applies only to housing authorities)	14.53%	14.64%	14.72%
Net borrowing requirement			
brought forward 1 April	94,363	100,077	104,668
carried forward 31 March	100,077	104,668	109,268
in year borrowing requirement	5,714	4,591	4,600
In year Capital Financing Requirement			
Non - HRA	(5,258)	3,176	(726)
HRA (applies only to housing authorities)	735	735	735
TOTAL	(4,523)	3,911	9
Capital Financing Requirement as at 31 March			
Non - HRA	211,211	214,387	213,661
HRA (applies only to housing authorities)	21,939	22,674	23,409
TOTAL	233,150	237,061	237,070
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in Council Tax (band D) per annum	(4.53)	(9.52)	(9.26)
Increase in average housing rent per week (housing authorities only)	2.53	2.33	2.65

Treasury management indicators	2010/11 estimate	2011/12 estimate	2012/13 estimate
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	418,165	420,267	418,077
other long term liabilities	8	8	8
TOTAL	418,173	420,275	418,085
Operational Boundary for external debt -			
borrowing	380,150	382,061	380,070
other long term liabilities	8	8	8
TOTAL	380,158	382,069	380,078
Actual external debt	173,361	163,325	153,312
Upper limit for fixed interest rate exposure			
expressed as either:-			
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%
Net interest re fixed rate borrowing / investments			
Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments OR:-	40%	40%	40%
Net interest re variable rate borrowing / investments			
Upper limit for total principal sums invested for over 364 days (per maturity date)	150,000	150,000	150,000

Maturity structure of new fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	25%

APPENDIX 7

Specified and Non-Specified Investments

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable (If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate)

	* Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies	(i) and (ii)	In-house and Fund Managers

	* Minimum Credit Criteria	Use
Banks nationalised by high credit rated (sovereign rating) countries	(i) and (ii)	In-house and Fund Managers
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries*	Sovereign rating AA-	In-house and Fund Managers
UK Government support to the banking sector**	Sovereign rating AA- or will we always use UK no matter what our rating	In-house and Fund Managers

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

* e.g. Italy (AA-), Australia (AA+), Singapore (AAA), Hong Kong (AA)
**Banks eligible for support under the UK bail-out package: -

- Abbey
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

	* Minimum Credit Criteria	Use
Certificates of deposits issued by banks and building societies covered by UK Government guarantee	(i) and (ii)	In-house buy and hold and Fund Managers
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	(i) and (ii)	In-house buy and hold and Fund Managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house buy and hold and Fund Managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house buy and hold and Fund Managers
Treasury Bills	--	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Long-term AAA volatility rating V1+	In-house and Fund Managers
2. Money Market Funds	Long-term AAA volatility rating V1+	In-house and Fund Managers

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

N.B. buy and hold may also include sale at a financial year-end and repurchase the following day in order to accommodate the requirements of SORP.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 70% ** will be held in aggregate in non-specified investment

1. Maturities of ANY period

	* Minimum Credit Criteria	Use	Max investment limit	Max. maturity period
Fixed term deposits with variable rate and variable maturities: -Structured deposits	(i)	In-house	£10m	Lower of 5 years or sector creditworthiness colour.

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

2. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	40%	5 years
Term deposits – UK Government		In-house and Fund Manager	40%	5 years
Term deposits – banks and building societies	(i) and (ii)	In-house and Fund Manager	40%	As per (i) and (ii)
Certificates of deposits issued by banks and building societies	(i) and (ii)	In-house and Fund Manager	40%	As per (i) and (ii)
UK Government Gilts	AAA	In-house and Fund Managers	100% Investec 40% In-house	Investec see note (iii) In-house as per (ii)
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	40% Investec 20% In-house	Investec see note (iii) In-house as per (ii)
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house and Fund Managers	100% Investec 20% In-house	Investec see note (iii) In-house as per (ii)
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In-house and Fund Managers	40% Investec 20% In-house	Investec see note (iii) In-house as per (ii)

(i) = Award of “Creditworthiness” Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

(iii)= Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years

APPENDIX 8

Approved countries for investments (current)

AAA

- Canada
- Denmark
- Finland
- France
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.
- U.S.A.

AA+

- Australia
- Belgium

AA

- Hong Kong
- Japan
- Kuwait
- Portugal

AA-

- Italy
- Saudi Arabia

TREASURY MANAGEMENT PRACTICES

Part 1: Main Principles

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this organisation will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

TMP1 RISK MANAGEMENT

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

[1] Credit and counterparty risk management

This organisation regards a key objective of its treasury management activities to be the security of the principle 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.

[2] Liquidity risk management

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

[3] Interest rate risk management

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

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

[4] Exchange rate risk management

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

[5] Refinancing risk management

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and regulatory risk management

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 [1] *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

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

[7] Fraud, error and corruption, and contingency management

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[8] Market risk management

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 PERFORMANCE MEASUREMENT

This organisation is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

This organisation 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 issues 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 in the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

This organisation 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*.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

This organisation 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 this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible 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 responsible 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 responsible 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 to this document.

The responsible 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 to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible 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.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The organisation (i.e. full council) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs (via Audit Committee).

The Cabinet will receive regular monitoring reports on treasury management activities and risks.

The Business Support overview and scrutiny committee will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

This organisation 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.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Section 151 officer, 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 Section 151 officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *Liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

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

TMP10 TRAINING AND QUALIFICATIONS

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in 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 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 responsible officer, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

This organisation 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.

This organisation has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES

Part 2: Schedules

January 2010

INTRODUCTION

This version of our Treasury Management Practices will require updating as soon as the DCLG guidance is finalised. This will then incorporate the new CIPFA Treasury Management code of practice and the new Prudential Code.

TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules, which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation

1 TMP1 RISK MANAGEMENT

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

As a holder of public funds, the Council recognises its prime responsibility to always put first the preservation of the principal of the sums, which it invests. Consequently, it will optimise returns commensurate with the management of the associated risk.

The Council will determine through its Annual Treasury Strategy Statement the credit criteria for various investment instruments in the 'Specified' and 'Non-Specified' Investments categories.

1.1.1 Counterparty Limits

Limits need to be set for amounts invested with any individual counterparty at any given moment. The relevant limits are as follows:

- In-house should be £20 million maximum per counterparty
- Investec should be a maximum of 20% of their managed portfolio with any counterparty
- The in-house team and fund manager shall have the ability to invest unlimited sums with the Debt Management Agency Deposit Facility as this is effectively an office of Central Government

1.1.2 Country Limits

Limits need to be set for amounts invested with any individual country at any given moment. The relevant limits are as follows:

- In-house and Investec should be £40 million maximum per country save for the UK with no limit.

1.1.3 In-house Investments

The in-house team uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service, which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands: -

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

The Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

Officers will monitor all credit ratings continuously. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

1.1.4 Funds invested with Fund Managers

The investment portfolio, which is invested with fund managers, must comply with the Treasury Strategy. In order to manage credit and counterparty risk management the current fund manager also uses a monitoring tool, which incorporates credit ratings, CDS data as well as market information.

Investec use the following methodology to compile its counterparty list:

Ratings set by Standard and Poor's and Fitch IBCA
Our minimum Credit ratings are as follows:

Long Term	AA-
Short Term	F1+
Individual	C
Support	1

There is an exception with regards to the individual rating of E (on positive watch) for RBS, due to the Government's significant holding in the company. Standard and Poor's ratings are monitored by Bloomberg and updated manually on a regular basis.

a. Procedure for adding names to the Lending List
For a borrower to be considered for entry onto the lending list it should first meet the minimum credit rating. Once this condition has been met, the sponsor, be it dealer or fund manager, should communicate with the fixed income credit team and request the borrower's inclusion. If the credit team after their due diligence are comfortable for the name to be added to the list, a brief proposal should be written and presented at the next Risk Committee meeting. If the Risk Committee approves of the new borrower, Vendor Management should update the lending list, communicate this to the dealers and fund manager.

b. Monitoring the Lending List on an ongoing basis
The lending list will be formally reviewed by the Fixed Income Credit Team on a monthly basis and on an ongoing basis by the Fixed Income Rate Team.

c. Procedure for deleting names from the Lending List
If a name on the list is downgraded below any of the above ratings it will be immediately deleted from the list. Any other name can be deleted if the Credit Team believes the borrower is likely to be downgraded. If a borrower is removed from the lending list, any existing deposits or certificates of deposit can be run to maturity provided the client and credit team are happy to do so. Otherwise the investment will be sold at the first available opportunity.

d. Monitoring client compliance with the Lending List
We only lend to the counterparties on our Standard Lending List even if the client provides Investec with a broader lending list. This ensures the team is monitoring all the banks we feel comfortable with properly. The client's individual limits to banks are set up in Thinkfolio, an automated system for checking counterparty limits every time we deal. Any changes to counterparty limits need to be communicated to Vendor Management ASAP so that the changes can be made to Thinkfolio.

e. Credit Default Swap levels (CDS's)
CDS's for our counterparties are monitored on a daily basis from data provided by Bloomberg. The CDS market has both a speculative and bank credit worthiness (insurance) element. The mix between these two elements is not yet transparent and thus a judgment is called for as to the usefulness of CDS as a monitoring tool.

Our approach is to monitor the trends in CDS's for all the banks on the standard lending list over a year to date, one year, one month, one week and daily basis. Any concerning trends will result in the bank being excluded from longer term lending or in rare circumstances suspended from future investing and/or existing assets sold.

f. Subjective Overlay
The Fund Managers "score" the markets current attitude to our counterparties on the standard lending list. A low score (minimum 1) reflects strength and a high score (maximum 5) reflects a more negative view. Three characteristics of a banks trading patterns are evaluated and thus the total score range is 3 -15. The lower the score –the longer the maturity we would be prepared to take for a qualifying counterparty on our standard lending list. A high score will limit the maturity level.

Scores are given for the following three important tests:
Will a bank buy back its own certificates of deposits (CDs) from us?
If the answer is "Yes" this is seen as a signal that there is satisfactory liquidity and a low score will result. A "No" will lead to a high score to reflect the more restricted liquidity and the need to use the secondary market in order to dispose of a holding.

Is the bank a frequent or rare issuer of CDs?

Frequent issuers are likely to be less attractive in the secondary market (e.g. investment houses "may be full of the name" or the issuing bank may be viewed as having an above average need for new funding). Rare issuers will be more highly regarded.

Do CDs issued by the banks trade "well" in the secondary market?
The market's appetite for CDs is seen as a signal about credit concerns or otherwise for any bank.

1.1.5 Approved Methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Chief Finance Officer or a nominated representative can at any time remove counterparties from the list. The Chief Finance Officer is responsible for applying approved credit rating criteria for selecting approved counterparties. The Chief Finance Officer following consultation with the Finance Portfolio Holder must approve any additions to the in-house counterparty list and any amendments to the Investec Counterparty list must be notified to the Chief Finance Officer at the time of amendment.

1.1.6 Full individual listings of counterparties and counterparty limits

1.1.6.1 In-house

Counterparty	Counterparty Limit
Bank of Scotland plc, Lloyds TSB Bank plc (treat as one counterparty)	£20m
Barclays Bank plc	£20m
HSBC Bank plc	£20m
Nationwide Building Society	£20m
Santander UK plc, Abbey National plc, Alliance & Leicester (treat as one counterparty)	£20m
Svenska Handelsbanken AB (publ)	£10m
The Royal Bank of Scotland (including Natwest Bank plc)	£20m
Blackrock Money Market Fund	£20m
Royal Bank of Scotland Money Market Fund	£20m
Debt Management Office	Unlimited
Other Local Authorities	Unlimited

1.1.6.2 Investec

The counterparty list for Investec is available for members if required but is not published in this document due to the sensitive nature of this information.

1.1.7 Approved countries for investments

AAA	AA+	AA	AA-

Canada	Australia	Hong Kong	Italy
Denmark	Belgium	Japan	Saudi Arabia
Finland		Kuwait	
France		Portugal	
Germany			
Luxembourg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			
U.K.			
U.S.A.			

1.2 LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that cash will not be available when it is needed. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council will therefore have sufficient stand by facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. It will also seek to ensure that its cash flow forecasting gives as accurate a picture as possible of the ebbs and flows in income and expenditure and the resulting residual daily cash balances.

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

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day with a guide balance of no more than £300,000 overdrawn or in credit.

1.2.2 Details of:

a. Standby facilities
The bank allows a £2m overdraft facility on the group accounts. Surplus funds are held on the daily account and are currently not swept into an interest bearing account as the interest bearing account is currently at its limit. If funds are received after the Treasury Management Section has completed its deals for the day the section will attempt to deposit funds in an account, which is available if it is within the permitted time frame.
b. Bank overdraft arrangements
A £2m overdraft at 1% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts.
c. Short-term borrowing facilities
The Council accesses temporary loans through approved brokers on the London money market.
d. Insurance/guarantee facilities
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.
e. Special payments
48 hours notice must be given to the Finance Support Manager for all special payments above £500,000.

1.2.3 Borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

1.3 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points as set out below. These limits and strategy are set out in the annual Treasury Management Strategy Statement. This strategy will be periodically reviewed during the relevant year to see whether any modifications are required in the light of actual movements in interest rates.

1.3.1 Details of approved interest rate exposure limits

the overall borrowing limit 2010-11	£427,659,000
the percentage of the overall borrowing portfolio which may be outstanding by way of short term borrowing	50%

1.3.2 Trigger points and other guidelines for managing changes to interest rate levels

The Chief Finance officer is responsible for incorporating the limits identified in 1.3.1 and 1.3.3 into the Annual Treasury Management Strategy, and for ensuring compliance with the limits.

The Treasury Management Section monitors interest rates very closely on a daily basis and any significant alterations would be reported immediately. Interest rates affect all decisions made on borrowing and investments.

1.3.3 Upper limit for variable interest rate exposure

Upper limit for variable interest rate exposure	40%

1.3.4 Upper limit for fixed interest rate exposure

Upper limit for fixed interest rate exposure	100%

1.3.5 Policies concerning the use of instruments for interest rate management

a. Forward dealing

Consideration will be given to dealing from forward periods dependant upon market conditions. When forward dealing is more than 24 hours forward then the approval of the Finance Support Manager is required.

b. Callable deposits
The Council will use callable deposits as part as of its Annual Treasury Strategy statement. The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the Annual Treasury Strategy statement.

c. LOBOS (borrowing under lender's option/borrower's option)
Use of LOBOs are considered as part of the annual borrowing strategy. The Chief Finance officer must approve all borrowing for periods in excess of 364 days.

1.4 EXCHANGE RATE RISK MANAGEMENT

Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes. It will also seek to minimise what risk it does have by using the below policies.

1.4.1 Approved criteria for managing changes in exchange rate levels

a. As a result of the nature of Medway Council's business, Medway Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Medway Council will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the council will eliminate all foreign exchange exposures as soon as they are identified.

b. Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless Medway Council has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

1.5 INFLATION RISK MANAGEMENT

Inflation risk is the risk that unexpected changes in inflation expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has minimal exposure to inflation risk as inflation has not been at high levels for the last decade and is not currently expected to return to such levels in the foreseeable future.

1.5.1 Details of approved inflation exposure limits for cash investments/debt

During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments following security of capital and the liquidity of investments, reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within this section.

1.6 REFINANCING RISK MANAGEMENT

Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets.

1.6.1 Debt/other capital financing, maturity profiling, policies and practices

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

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

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

Rescheduling will be reported to full Council in the Annual Treasury Outturn Report.

1.6.2 Projected capital investment requirements

The Chief Finance Officer will prepare a three-year plan for capital expenditure for the Council. The capital plan will be used to prepare a three-year revenue budget for all forms of financing charges. This will include using prudential borrowing to fund invest to save schemes.

Under the new capital financing system, the definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice (SORP).

1.6.3 Policy concerning limits on affordability and revenue consequences of capital financing

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

1.6.4 Capital receipts generated by the HRA

75% of capital receipts generated by the Housing Revenue Account will be pooled, i.e. paid to the Secretary of State, with the exception of ‘qualifying disposals’ (e.g. large and small scale voluntary transfers of housing to social registered landlords or any capital receipts from new build). The CLG are proposing that all pooling arrangements will come to an end however, this has not yet been agreed or any proposed implementation date put forward.

1.6.5 PFI, Partnerships, ALMOs and guarantees

This is currently not applicable to Medway Council.

1.7 LEGAL AND REGULATORY RISK MANAGEMENT

Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss.

1.7.1 References to relevant statutes and regulations

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

- CIPFA Prudential Code for Capital Finance in Local 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
- Guidance on Investments ODPM 12.3.2004
- Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006 Statutory Instrument No. 521
- Guidance on Housing Capital Receipts Pooling ODPM 23.3.2004
- 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 Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Allocation of financing costs to the HRA *(housing authorities)* – annual determination by Secretary of State
- Definition of HRA capital expenditure - Local Government and Housing Act 1989 section 74 (1)
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2009, 2006, 2004, 2001 and 1996
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 1995
- LAAP Bulletin 55 CIPFA's Guidance on Local Authority Reserves and Balances
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority's Code of Market Conduct
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB annual circular on Lending Policy
- LAAP Bulletin 81 Closure of the 2008/09 Accounts and Related Matters
- CIPFA Treasury Management Panel Bulletin – Treasury Management Update December 2009
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

Please note *that at the time of writing (January 2009) new regulations on the capital finance system by Communities and Local Government (CLG) had not been issued. This is anticipated to re-enforce the new CIPFA Guidance on Treasury Management and will be added once it has been released.*

1.7.2 Procedures for evidencing the council's powers/authorities to counterparties

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

- Investing: Local Government Act 2003, section 12
- Borrowing: Local Government Act 2003, section 1

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by the three ratings agencies and CDS data. *(See 1.1 Credit and counterparty risk management.)*

1.7.3 Required information from counterparties concerning their powers/authorities

The Treasury Management section receive regular news flashes from its Treasury Management advisor which includes changes to credit ratings and any other pertinent information relating to institutions that may affect decision-making. CDS data is also reviewed daily for counterparties that the council currently have funds invested with and will be acted upon if there is a necessary concern. The Treasury Management Section also monitor the Financial press for news on a relevant counterparty or country.

1.7.4 Statement on the council's political risks and management of same

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

1.7.5 Monitoring Officer

The monitoring officer is the Assistant Director Housing and Corporate services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful

1.7.6 Chief Finance officer

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

1.8 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY RISK MANAGEMENT

Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements, which identify and prevent losses through such occurrences. The Council will therefore:-

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

1.8.1 Details of systems and procedures to be followed, including internet services

Procedures

Written procedures exist for completing the day-to-day treasury function, which is supported by the Treasury Strategy and Treasury Management Practices.

The daily treasury balances are obtained from Natwest bankline, the council's on-line banking system and all treasury payments are made using this system or the councils creditors system. CHAPS payments are made via the on-line banking system – they are input by a treasury officer and approved by a finance service manager.

Investment and borrowing transactions

- A detailed register of all loans and investments is maintained.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the treasury and income team leader for resolution.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the treasury and income team leader for resolution.
- Contract notes for transactions carried out by the external fund managers will be received as executed and maintained.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- The treasury team enters into the treasury diary when money borrowed or lent is due to be repaid.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- No member of the treasury management team is an authorised signatory.
- Payments can only be authorised using a proforma signed by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.
- Capital and interest withdrawals and capital injections in respect of monies managed by external fund managers can only be carried out in writing by the authorised signatories to the fund management agreement and notified to the fund manager(s).

Checks

- The bank reconciliation is carried out weekly for the housing benefit account and fortnightly for the general account and creditor account from the bank statement to the financial ledger.
- The bank statements are also checked for large transactions to ensure that they are valid transactions.
- The investment and borrowing spreadsheets are reconciled to the balance sheet ledger codes at the end of each month and at the financial year-end.
- A cost of borrowing and investment income earned is produced every month when a review is undertaken against the budget for interest earnings and debt costs.
- The valuations and investment income statements received monthly from the Council's fund managers will be checked and retained for audit inspection. The method of accounting for unrealised losses or gains on the valuation of assets within the funds will comply with best ACOP accounting practice by reflecting the market value of the fund in the balance sheet. For 2008-09 fund managers investments have been treated as fair value through profit and loss within the accounts. This will be agreed with Council's external auditors.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated on the relevant treasury paperwork.

- Periodic interest payments of PWLB and other long-term loans are reconciled and entered into the treasury diary. This is used to check the amount paid to lenders.
- Average equated capital loans fund interest rates are calculated monthly using information from PWLB and LOBO schedules. A reconciliation is carried out monthly between the financial ledger Integra and the PWLB and LOBO schedules.
- These interest and expense rates are then used to calculate the principal and interest charges to the General Fund and the Housing Revenue Account recharge.

1.8.2 Emergency and contingency planning arrangements

If personal computers are unavailable methods are in place for repaying loans, investing with counterparties, receiving repayments of investments and borrowing payments via fax and/or phone. Paper copies of the previous days treasury activity are always held and a paper-based diary is used for information on payments and repayments. The introduction of Internet based Bankline during 2008/09 has enabled remote access to make payments, transfers and check balances. All members of the treasury management team are familiar with this plan and new members will be briefed on it.

1.8.3 Insurance cover details

Fidelity insurance
The Council has 'Fidelity' insurance cover with Zurich Municipal. This covers the loss of cash by fraud or dishonesty of employees.
This cover is limited to £5m for any one event with an excess of £1m for any one event

Professional Indemnity Insurance
The Council also has a 'Professional Indemnity' insurance policy with Travelers Insurance Company, which covers loss to the Council from the actions and advice of its officers, which are negligent and without due care. This cover is limited to £5m for any one event with an excess of £100,000 for any one event.

Business Interruption
The Council also has a 'Business Interruption' cover as part of its property insurance with Zurich Municipal.

1.9 MARKET VALUE OF INVESTMENTS RISK MANAGEMENT

Market risk is the risk of fluctuations in the principal value of the Council's investments.

1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDs etc)

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Treasury Management Strategy Statement.

2 TMP 2 PERFORMANCE MEASUREMENT

2.1 EVALUATION AND REVIEW OF TREASURY MANAGEMENT DECISIONS

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

For performance outcomes:

a. we will establish quarterly review meetings with the treasury management team
b. reviews with our treasury management consultants
c. annual treasury outturn report as reported to committee

For Value for Money:

a. effective procurement
b. comparative reviews /benchmarking

2.1.1 Periodic reviews during the financial year

The Finance Support Manager, Principal Accountant and Treasury and Income Team Leader will introduce a monthly meeting to review actual activity against the Treasury Management Strategy Statement and cash flow forecasts.

This will include :

a. Total debt including average rate, actual rate and maturity profile
b. Total investments including average rate, actual rate and maturity profile

and changes to the above from the previous review and against the TMSS.

2.1.2 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants approximately every 4 months to review the performance of the investment and debt portfolios.

2.1.3 Annual Review after the end of the financial year

An Annual Treasury Outturn Report is submitted to the Council each year after the close of the financial year, which reviews the performance of the debt and investment portfolios. This report contains the following: -

- the Council’s treasury position as at year end
- performance measurement;
- the strategy for the year;
- the economy during the year;
- borrowing and investment rates in the year;
- the borrowing outturn for the year;
- compliance with treasury limits and Prudential Indicators;
- investment outturn for the year;
- debt rescheduling;
- plus any other relevant issues

2.2 VALUE FOR MONEY IN TREASURY MANAGEMENT

2.2.1 Procurement

Treasury services will be procured in accordance with Council procurement rules that are set to establish value for money for services.

2.2.2 Comparative review and benchmarking

2.2.2.1 Comparative reviews

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

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club

2.2.2.2 BENCHMARKS AND CALCULATION METHODOLOGY:

Medway Council is a member of Treasury Management and Debt Management Benchmarking Clubs, which are run by CIPFA.

Debt management

- Average rate on all external debt
- Average period to maturity of external debt

Investment

The performance of investment earnings will be measured against the following benchmarks: -

a. in house investments

Other local authorities
Other market products
Cash fund manager

b. cash fund manager

7 day Local Authority Deposit Rate
In-house treasury team

Performance will also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

3 TMP 3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:

3.1.1 Records to be kept

The following records will be retained*:* -

- Daily cash balance forecasts
- Daily bank balances from Natwest bankline
- Investment limits & borrowing analysis
- Money market rates obtained by telephone from brokers
- Dealing sheet for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly

.

- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

- Contract notes received from fund manager
- Fund manager valuation statements

3.1.2 Processes to be pursued

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

3.1.3 Issues to be addressed

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

a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

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

a) Evaluate economic and market factors to form a view on future interest rates so as to determine the manner and timing of decisions to borrow;

b) Consider the sources of borrowing, alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;

c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships to minimise costs and risks;

d) Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets;

e) Seek to reduce the overall level of financing costs / smooth maturity profiles through debt restructuring.

3.1.3.3 In respect of investment decisions, the Council will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;

b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;

c) Determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

4 TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund).

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The Treasury Management Strategy Statement sets out the approved instruments, which are as follows:

4.2.1 Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable (If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate)

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies	(i) and (ii)	In-house and Fund Managers

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1
(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

	*** Minimum Credit Criteria**	**Use**
Banks nationalised by high credit rated (sovereign rating) countries	(i) and (ii)	In-house and Fund Managers
Government guarantee on ALL deposits by high credit rated (sovereign rating) countries*	Sovereign rating AA-	In-house and Fund Managers
UK Government support to the banking sector**	Sovereign rating AA- or will we always use UK no matter what our rating	In-house and Fund Managers

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1
(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

* e.g. Italy (AA-), Australia (AA+), Singapore (AAA), Hong Kong (AA)
**Banks eligible for support under the UK bail-out package: -

- Abbey
- Barclays
- HBOS
- Lloyds TSB
- HSBC
- Nationwide Building Society
- RBS
- Standard Chartered

Certificates of deposits issued by banks and building societies covered by UK Government guarantee	(i) and (ii)	In-house buy and hold and Fund Managers
Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee	(i) and (ii)	In-house buy and hold and Fund Managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house buy and hold and Fund Managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house buy and hold and Fund Managers
Treasury Bills	--	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Long-term AAA volatility rating V1+	In-house and Fund Managers
2. Money Market Funds	Long-term AAA volatility rating V1+	In-house and Fund Managers

(i) = Award of “Creditworthiness” Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1
(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

N.B. buy and hold may also include sale at a financial year-end and repurchase the following day in order to accommodate the requirements of SORP.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

4.2.2 NON-SPECIFIED INVESTMENTS:

A maximum of 70% ** will be held in aggregate in non-specified investment

a. Maturities of ANY period

	* Minimum Credit Criteria	Use	Max investment limit	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	(i)	In-house	£10m	Lower of 5 years or sector creditworthiness colour.

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

b. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	--	In-house	40%	5 years
Term deposits – UK Government		In-house and Fund Manager	40%	5 years
Term deposits – banks and building societies	(i) and (ii)	In-house and Fund Manager	40%	As per (i) and (ii)
Certificates of deposits issued by banks and building societies	(i) and (ii)	In-house and Fund Manager	40%	As per (i) and (ii)
UK Government Gilts	AAA	In-house and Fund Managers	100% Investec 40% In-house	Investec see note (iii) In-house as per (ii)
Bonds issued by multilateral development banks	AAA	In-house and Fund Managers	40% Investec 20% In-house	Investec see note (iii) In-house as per (ii)
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house and Fund Managers	100% Investec 20% In-house	Investec see note (iii) In-house as per (ii)
Sovereign bond issues (i.e. other than the UK govt)	AAA (or state your criteria if different)	In-house and Fund Managers	40% Investec 20% In-house	Investec see note (iii) In-house as per (ii)

(i) = Award of "Creditworthiness" Colour by Sector Treasury Services as detailed in section 16.2 and Appendix 10 TMP 1.1

(ii) = Inclusion within the Investec approved Counterparty list as detailed in section 16.2 and Appendix 10 TMP 1.1

(iii) = Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years

4.3 APPROVED TECHNIQUES

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- PWLB
- The use of structured products such as callable deposits

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	●	●
European Investment Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing
Government and EC Capital Grants
Lottery monies
PFI/PPP
Operating leases

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

4.5 INVESTMENT LIMITS

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

4.6 BORROWING LIMITS

The Treasury Management Strategy Statement details the Prudential Indicators.

5 TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 LIMITS TO RESPONSIBILITIES / DISCRETION AT COUNCIL/EXECUTIVE LEVELS

a) The full Council will set the Prudential Indicators and revise them as and when necessary.
b) The Business Support Overview and Scrutiny committee, Cabinet and then Full Council will receive and review reports on treasury management policies, the annual treasury management strategies and the mid year report.
c) The Business Support Overview and Scrutiny committee and Cabinet will receive and review Treasury Management Practices.
d) Cabinet and Audit Committee will receive and review the Annual Treasury Outturn report.
e) Cabinet will receive and review Treasury Management monitoring reports.
f) The Chief Finance Officer will be responsible for amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices.
g) Cabinet will consider and approve the Treasury Management Budget.
h) The Business Support Overview and Scrutiny committee and Cabinet will approve the segregation of responsibilities via the TMP Schedules.
i) The Finance Support Manager will receive and review external audit reports and put recommendations to the Audit Committee.
j) Approving the selection of external service providers and agreeing terms of appointment will be decided by Cabinet in accordance with Financial Regulations.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

a) Approvals of payments on Natwest Bankline payments system are segregated from input of payments.
b) Transaction paperwork approval is segregated from approval of payments on Bankline.
c) A check is made by the approver on the validity of the deals and that all payments due are being made.

5.3 TREASURY MANAGEMENT ORGANISATION CHART

All decisions on borrowing, investing or financing are delegated by Medway Council to the Chief Finance Officer. Further delegation of responsibility is made by the Chief Finance Officer to his staff, who are all required to act in accordance with CIPFA's code on Treasury Management.

The structure for decision-making and delegation of responsibility for long-term borrowing is as follows: -

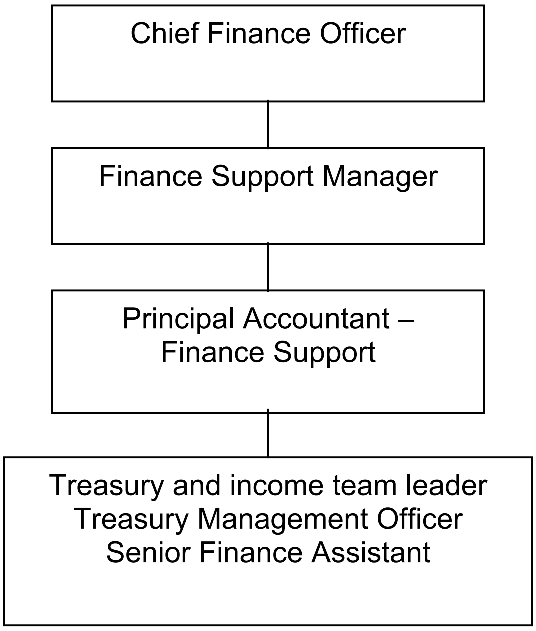
1. Strategy and decisions on borrowing and lending.

Chief Finance Officer

Finance Support Manager

It is the responsibility of the Finance Support Manager to prepare the annual strategy for approval by the Chief Finance Officer. In addition he will consider and decide on detailed proposals for borrowing and investment made by the Finance Support Manager.

2. Day to day cash flow management delegated to the Finance Support Manager and Treasury Team.



5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1 Chief Finance Officer

The Chief Finance Officer will:

a) Ensure that the treasury system is specified and implemented
b) Submit budgets and budget variations in accordance with Financial Regulations and guidance.
c) In setting the prudential indicators, the Chief Finance Officer will be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
d) Establish a measurement and reporting process that highlights significant variations from expectations.
e) In extreme circumstances make reports to the Council under S114 of the Local Government Finance Act 1988 (Scotland – S95 of the Local Government (Scotland) Act 1973) if the Chief Finance Officer considers the Council is likely to get into a financially unviable situation.
f) Review the performance of the treasury management function and promote best value reviews.
g) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
h) Ensure the adequacy of internal audit, and liaising with external audit.
i) Recommend on appointment of external service providers in accordance with council standing orders.

1. The Chief Finance Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

2. The Chief Finance Officer may delegate his power to borrow and invest to members of his staff. The Finance Support Manager, the Principal Accountant Finance Support, the Treasury and Income Team Leader, the Treasury Management Officer or Senior Finance Assistant must conduct all dealing transactions, or staff authorised by the Chief Finance Officer to act as temporary cover for leave/sickness. All transactions must be authorised by an approver who did not conduct the dealing transaction.

3. The Chief Finance 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.

4. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Finance Officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

5. It is also the responsibility of the Chief Finance Officer to ensure that the Council 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 Finance Support Manager – Treasury Manager

The responsibilities of this post will be: -

a) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
b) Submit treasury management reports as required to the Business Support Overview and Scrutiny committee and then to full Council.
c) Execution of transactions and conduct of other day-to-day activities in accordance with the Treasury Management Practices.
d) Adherence to agreed policies and limits.
e) Managing the overall treasury management function.
f) Supervising treasury management staff.
g) Ensuring appropriate segregation of duties
h) Monitoring performance on a day-to-day basis.
i) Submitting management information reports to the Chief Finance Officer.
j) Maintaining relationships with third parties and external service providers and reviewing their performance.

5.4.3 The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the Chief Finance Officer reports as required to the Business Support Overview and Scrutiny committee, Cabinet and full Council on treasury policy, activity and performance.

5.4.4 The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the Chief Finance 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 Chief Finance 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

At least 2 members of the Treasury Team are available at all times or emergency back up is available. There will be at least three members of staff confident in the undertaking of the daily Treasury activities within the team. There are 6 officers who may approve treasury transactions and a rota is set on a weekly basis to ensure that there are always at least 2 approvers available. Approvals can also be done remotely from any internet terminal.

5.6 DEALING LIMITS

- The dealer must adhere to the agreed lending list. This controls counterparty risk. The dealer is not restricted in who they may borrow from, here the risk is with the counterparty. However the dealer must be aware of the possibility that any counterparty may be "laundering money".

- Limits on those institutions that the dealer may lend to are set out in these Treasury Management Practices. There is a maximum limit to the deals that may be open with them at any one time. At present, the limits for authorised counterparties is between £10m and £20m depending upon rating for the in-house team or 20% of the Portfolio for Investec. There is also a country limit of £40m save for the UK where there is not a limit for the in-house treasury team. This ensures diversification and therefore decreases risk. This system of limits is discussed in schedule one of this document.

- All treasury management decisions undertaken must adhere to the framework and strategy set out in the Treasury Policy Statement and their schedules. Decisions must operate within limits set by statutory instruments, codes of practice and other regulatory criteria. The dealer must ensure that they are operating within their own limits to decision making as described in part 5.6 of this schedule. A dealer should not assume they have unlimited responsibility by being aware of the responsibilities of others as specified in 5.4.

5.7 LIST OF APPROVED BROKERS

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2.

5.8 POLICY ON BROKERS' SERVICES

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

5.9 POLICY ON TAPING OF CONVERSATIONS

It is not the Council's policy to tape brokers conversations

5.10 DIRECT DEALING PRACTICES

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

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

5.11 SETTLEMENT TRANSMISSION PROCEDURES

Funds that are due to be paid to a named counterparty or payee are transmitted by electronic transfer using the NatWest Clearing House Automated Payments System (or CHAPS). This method allows the transfer of funds from Medway Council's bank accounts to a receiver's account, without need to inform the bank. Medway Council can also receive payments via CHAPS/BACS; the Medway General Account is the designated account for inward payments account no. 90502094 outward payments are made from account no. 90502108.

CHAPS/BACS instructions are entered by the dealer onto the internet Bankline system. Notification of incoming payments is by bank fax. Approved managers authorise and action the payments using a secure system. An audit trail is maintained on the internet Bankline system that shows what was approved, and by whom. Bankline generates a unique reference number for each payment by which it can be tracked and all information is held against.

The close of business daily is as follows: -

	Close of Business	**Latest time for payment release**
CHAPS	17:00	15:49 or 16:49 for Natwest accounts
BACS	17:00	18:15

There is no minimum threshold on how small a payment can be. There is however an upper limit on total payments made. The total payments may not exceed £10m; if this limit is likely to be breached contact must be made with Nat West informing them of this situation.

There are three levels of users for Bankline; input, approval and two administrators. The Finance Support section maintains a list within Bankline of which members of staff are authorised to access CHAPS/BACS. It also lists the various transactions they are authorised to carry out. In the event of the Bankline system failing instructions for CHAPS/BACS are faxed to Natwest. An authorised signatory countersigns this document.

The dealer enters payments via Bankline and verifies their accuracy, confirming details.

The approver is able to view the payment and approve the transmission of funds after checking the verified entry to the documentation supplied by the dealer. For security reasons no user can enter and then release payments.

The administrators can either enter or approve payments (but not both) as they are set up as "dual" administrators but both would have to approve material changes. They arrange the system privileges that are conferred upon specific users of the Bankline system.

5.12 DOCUMENTATION REQUIREMENTS

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

6 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted Business Support Overview and Scrutiny committee, Cabinet and then to the full Council for approval before the commencement of each financial year.

The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

The Treasury Management Strategy Statement is concerned with the following elements:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

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.

6.2 POLICY ON INTEREST RATE EXPOSURE

The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential Indicators.

The Finance Support Manager 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 Finance Support Manager shall submit the changes for approval to the full Council

6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to the Business Support Overview and Scrutiny committee and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

a. a comprehensive picture for the financial year of all treasury policies, plans, activities and results;
b. transactions executed and their revenue (current) effects;
c. report on risk implications of decisions taken and transactions executed;
d. monitoring of compliance with approved policy, prudential limits, practices and statutory / regulatory requirements;

e. monitoring of compliance with powers delegated to officers;
f. degree of compliance with the original strategy and explanation of deviations;
g. explanation of future impact of decisions taken on the organization;
h. measurements of performance;
i. report on compliance with CIPFA Code recommendations.

6.4 MANAGEMENT INFORMATION REPORTS

Management information reports will be prepared every month by the Treasury and Income Team Leader and will be presented to the Principal Accountant.

These reports will contain the following information: -

a) A summary of transactions executed and reconciled;
b) degree of compliance with original strategy and explanation of variances.
c) Any non-compliance with Prudential limits or other treasury management limits.

6.5 PERIODIC MONITORING COMMITTEE REPORTS

The Business Support Overview and Scrutiny committee will receive and consider a half yearly review of treasury management activities during the period including details of any debt rescheduling undertaken. This is then passed on to Cabinet and Full Council.

7 TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

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

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain.

7.3 BUDGETS / ACCOUNTS / PRUDENTIAL INDICATORS

The Finance Support Manager will prepare a three-year medium term financial plan with Prudential 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 Support Manager will exercise effective controls over this budget and monitoring of performance against Prudential Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential Indicators
- Review of observance of limits set by Prudential Indicators
- Calculation of the Minimum Revenue Provision
- External fund manager(s) valuations including investment income schedules and movement in capital values.

7.4.1 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Chief Finance Officer and DMT, whilst a bi-monthly budget monitoring report goes to Cabinet. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

8 TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

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

8.2 CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

The framework for cash flow projection is set up on a spreadsheet a year in advance, projected forward for the whole of the following year. The model contains all sources of income and expenditure as they appear on the bank statements, grant schedules and creditor payments for previous periods. An estimate for movement on school balances and capital expenditure is also included. A summarised cash flow is produced forecasting cash balances for four years.

8.3 LISTING OF SOURCES OF INFORMATION

- Income
- Council Tax/Business Rates
- Revenue Support Grant and National Non-domestic Rates re distribution
- Grants
- Capital Receipts
- Expenditure
- Salaries
- Creditor payments (suppliers, housing benefits, foster payments, etc…)
- Borrowing
- Investments

8.4 BANK STATEMENTS PROCEDURES

The Council receives daily bank statements and a daily download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc.
The Control Team undertakes a formal bank reconciliation on a weekly basis for the Housing Benefit Account and fortnightly for the General Account and Creditors Account.

8.5 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS

Our policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid immediately where possible.

8.6 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS

The Finance Manager Exchequer is responsible for monitoring the levels of debtors and creditors. Details are passed to the treasury team on a daily basis to assist in updating the cash flow models.

8.7 PROCEDURES FOR BANKING OF FUNDS

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers team to deposit in the Council's banking accounts.

8.8 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS

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

9 TMP 9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

It is no longer Council policy to accept loans from individuals although it did in the past and has a small, immaterial residue of loans still on its books.

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

When repaying loans, the procedures in 9.2 will be followed to check the bank details of the recipient.

9.2 METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS

In the course of its Treasury activities, the Council and fund manager will only lend money to or invest with those counterparties that are on its approved lending list. These will be authorised deposit takers under the Financial Services and Markets Act 2000. The FSA register can be accessed through their website on www.fsa.gov.uk).

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

9.3 PROCEEDS OF CRIME ACT 2002 (POCA)

The Monitoring Officer in conjunction with the Chief Finance Officer is conversant with the requirements of the Proceeds of Crime Act 2002 and will train the following staff in being diligent to be alert for suspicious transactions: -

- treasury management
- cashiers section
- other as appropriate

The Council has appointed the Monitoring Officer to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity should be reported. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

10 TMP 10 STAFF TRAINING AND QUALIFICATIONS

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional 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 Support Manager to ensure that all staff under his / her authority receive the necessary training.

10.1 DETAILS OF APPROVED TRAINING COURSES

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

10.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF

The Finance Support Manager will maintain records on all staff and the training they receive.

10.3 APPROVED QUALIFICATIONS FOR TREASURY STAFF

Preferably CIPFA or alternatively CCAB
AAT
NVQ in Accounting
Relevant Degree
AMCT Diploma in Treasury (Joint ACT/CIPFA)

10.4 QUALIFICATIONS OF TREASURY STAFF

Finance Support Manager – CIPFA
Principal Accountant - CIPFA

10.5 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.

10.6 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

1. The Chief Financial Officer is a member of a CCAB body and there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

11 TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

11.1.1 Banking services

a) Name of supplier of service is the Natwest Bank.
b) The branch address is:
Chatham Branch
148 High Street
Chatham
Kent ME4 4DJ
c) Contract commenced 01/10/05
d) Cost of service is variable depending on schedule of tariffs and volumes
e) Payments due monthly and quarterly

11.1.2 Money-broking services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers. The performance of brokers is reviewed by the Finance Support Manager and principal account every year to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Chief Finance Officer.

Name of broker

Tradition UK Ltd
Sterling International Brokers Ltd
Tullett Prebon (UK) Ltd
Martin Brokers (UK) Ltd
ICAP plc

11.1.3 Consultants'/advisers' services

Treasury Consultancy Services
The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to\ put on its approved lending list etc.
The Finance Support Manager will review the performance of consultants every year to check whether performance has met expectations.

a) Name of supplier of service is Sector Treasury Services Limited. Their address is 17 Rochester Row, London SW1P 1QT Tel: 0870 1916800
b) Contract commenced 01/06/2009 and runs for 1 year.
c) Cost of service is £19,000 per year.
d) Payments due in May and November.

External Fund Managers

a) Name of supplier of service is Investec Asset Management Limited.
b) Their address is:
   2 Gresham Street
   London EC2V 7QP
b) Contract commenced 01/4/01 and is reviewed on a regular basis.
d) Fee scale is 0.15% on the first £15m and 0.125% for fund balances exceeding £15m. Fees are deducted quarterly from the income received.
e) The fund guidelines, limits, benchmarks and targets agreed with the manager are contained in the investment management agreement.
f) Valuations and performance data versus the benchmark are provided by the manager monthly. Fund performance review meetings are held semi-annually.

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

The Council's policy is to appoint full-time professional cash/external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883}.

The delegation of investment management to external managers will entail the following :

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. The Council has appointed Sector Treasury Services Limited to assist in this respect.

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

11.1.4 Credit rating agency

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

11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES

See TMP2

12 TMP 12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

b. It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

Treasury Management Policy Statement
Treasury Management Strategy Statement includes Prudential Indicators and Annual Investment Strategy
Annual Treasury Report

Annual accounts
Annual budget
3-Year Capital Plan

Minutes of Council / Cabinet / committee meetings

12.2 PROCEDURES FOR CONSULTATION WITH STAKEHOLDERS

There are few stakeholders in the treasury management activity area. Relevant stakeholders will be consulted through meetings to discuss draft changes in operations.