

## **CABINET**

**11 FEBRUARY 2014**

### **TREASURY MANAGEMENT STRATEGY 2014/2015**

#### **ADDENDUM REPORT**

Portfolio Holder: Councillor Jarrett, Finance and Deputy Leader  
Report from: Mick Hayward, Chief Finance Officer, Business Support  
Author: Andy Larkin, Finance Support Manager

#### **Summary**

This addendum report sets out details of the discussion on the Treasury Management Strategy at the Business Support Committee on 4 February 2014.

#### **1. Background**

- 1.1 The Business Support Overview and Scrutiny Committee considered the Treasury Management Strategy on 4 February 2014.
- 1.2 The report invited the Committee to scrutinise the Council's Treasury Management Strategy for the 2014/15 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.
- 1.3 The Committee's attention was drawn to paragraph 16 of the report on treasury management reporting and the proposed movement of scrutinising Treasury management from Business Support Overview and Scrutiny to Audit Committee.
- 1.4 Following consideration and recommendation by the Audit Committee of the mid year review of the Council's Treasury Management Strategy the Cabinet had agreed in December 2013 to withdraw funding from the external Fund Manager. The reason for this was that the Council's internal investment team had out-performed the Fund Manager for nine years out of the last ten. Investments would be taken back only as they came to term to avoid the Council loses from selling early all funds will be returned by end March 2014 with the exception of a UK Gilt, this will be transferred to a caretaking fund manager until it matured, the Council does not have any experience with gilts and the fee was considered reasonable at £800 per annum.
- 1.5 Members also noted the circulation of a supplementary agenda that contained a revised version of Appendix 10 of the report.

1.6 Members then raised a number of issues and questions including:

- The average number of investment transactions Council Officers undertook -. Members noted that some investments were not touched for six to twelve months and others were handled on a daily basis because they were used to maintain the Council's cash flow balance. On average four or five transactions a day took place to maximise the use of the Council's money.
- Members noted that CDS was an abbreviation and meant Credit Default Swap.
- Members referred to a reduction in back-office finance staff as a consequence of required efficiencies and the potential impact on the effectiveness of treasury management services. The Chief Finance Officer advised he was confident that the treasury management team would continue to provide a high standard of service and that, if required specialist advice would be sought from Capita, an external adviser to the Council.

1.7 The Business Support Overview and Scrutiny Committee noted the Treasury Management Strategy 2014/2015 and its revisions and forwarded its comments for consideration by Cabinet on 11 February 2014. The Committee also recommended the approval of the revised Treasury Management Practices as set out in the revised Appendix 10 to the report.

## **2. Revised Appendix 10**

2.1 Attached to this addendum report is a revised Appendix 10 - Treasury Management Practices to the Treasury Management Strategy 2014/2015 report.

2.2 Each year amendments are made to the Treasury Management Practices, forthcoming from revisions to the Treasury Management Strategy, including changes to practices (the decision to withdraw funds from the external fund manager), statute and updates recommended from professional bodies.

2.3 The revised Appendix 10 clearly highlights all deletions and additions to the Treasury Management Practices in order to assist Members tracking these amendments.

### **Lead officer contact**

Andy Larkin, Finance Support Manager, Level 2, Gun Wharf  
Telephone number: 01634 332317 E-mail: [andrew.larkin@medway.gov.uk](mailto:andrew.larkin@medway.gov.uk)

# **TREASURY MANAGEMENT PRACTICES**

*January 2014*

## Contents

	Page
<b>TMP 1 Treasury risk management</b>	<b>3</b>
<b>TMP 2 Performance measurement</b>	<b>23</b>
<b>TMP 3 Decision-making and analysis</b>	<b>25</b>
<b>TMP 4 Approved instruments, methods and techniques</b>	<b>27</b>
<b>TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements</b>	<b>29</b>
<b>TMP 6 Reporting requirements and management information arrangements</b>	<b>34</b>
<b>TMP 7 Budgeting, accounting and audit arrangements</b>	<b>37</b>
<b>TMP 8 Cash and cash flow management</b>	<b>38</b>
<b>TMP 9 Money laundering</b>	<b>39</b>
<b>TMP 10 Training and qualifications</b>	<b>41</b>
<b>TMP 11 Use of external service providers</b>	<b>43</b>
<b>TMP 12 Corporate governance</b>	<b>45</b>

# 1 TMP1 RISK MANAGEMENT

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

## 1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

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

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

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

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
4. The responsible officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

This organisation will use the **Sector Capita Asset Services** creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows:-

- yellow – 5 years
- **Dark Pink – 5 Years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.25**
- **Light Pink – 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.5**
- purple – 2 years
- blue – 1 year (applies to nationalised or semi nationalised UK banks)
- orange – 1 year

- red – 6 months
- green – 3 Months 100 days
- No Colour – Not to be used

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

As this methodology is complex, readers are referred to the document produced by Sector ~~“Guide to Establishing Credit Policies April 2009”~~ **“Sector Suggested Credit Policy 2012-13”** for a full explanation.

5. 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.
6. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -
  - The quality financial press
  - Market data
  - Information on government support for banks and
  - The credit ratings of that government support
7. Maximum maturity periods and amounts to be placed in different types of investment instrument are specified in paragraph 8 and TMP 1 schedule 1
8. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
  - Maximum amount to be placed with any one institution - £25m and for those with a **sector Capita Asset Services** duration of less than 12 months £20m.
  - Group limits where a number of institutions are under one ownership – maximum of £25m and for those with a **sector Capita Asset Services** duration of less than 12 months £20m.
  - Country limits – a minimum sovereign rating of AA- from Fitch Ratings (or equivalent) is required for an institution to be placed on our approved lending list, with the exception of United Kingdom, where there is no restriction on the sovereign credit rating. The maximum investment in any one country is £40m with the exception of UK which is unlimited. The list of countries which currently meet this criteria is: -

AAA	AA+	AA	AA-
Australia	France	Abu Dhabi (UAE)	Belgium
Canada	Hong Kong	France	Japan
Denmark	Netherlands	Qatar	Saudi Arabia
Finland	U.K.		
Germany	U.S.A.		
Luxembourg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			
U.K.			

9. Investments will not be made with counterparties that do not have a credit rating in their own right
10. The definition of 'high credit quality' \*\* in order to determine what are specified investments as opposed to non specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1. ~~This schedule also sets out the categories of investment instruments which fall into the specified investments category as they entail minimum procedural formalities in terms of the placing of those investments by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.~~
11. The Council's external fund manager(s) will adhere to the counterparty credit criteria and maximum individual limits set by the Council; however the fund manager(s) may use a subset of the counterparty list so derived.
12. The counterparty list for the in-house team is available for members if required but is not published in this document due to the sensitive nature of this information

## 1.2 LIQUIDITY RISK MANAGEMENT

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

This organisation will ensure it has adequate 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.

### 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.

**Details of:**

- a. Standby facilities  
The bank allows a ~~£2m~~ £0.5m 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~~ £0.5m 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  
24 hours notice must be given to the Treasury Team for all special payments (CHAPS) above £100,000.

**1.3 INTEREST RATE RISK MANAGEMENT**

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

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

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

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

the overall borrowing limit	<del>2013/14</del> 2014-15	<del>£435,915,000</del> £424,282,000
the percentage of the overall borrowing portfolio which may be outstanding by way of short term borrowing		75 %

**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 or Principal Accountant 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

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

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

### 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 REFINANCING RISK MANAGEMENT

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

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

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

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.

### 1.5.1 Debt/other capital financing, maturity profiling, policies and practices

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

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

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

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

### 1.5.2 Projected capital investment requirements

The responsible 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 ~~as per the Code of Practice on Local Authority Accounting.-(SORP)~~

### 1.5.3 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.

The Council will use the definitions provided in the Prudential Code for borrowing (64) (65), capital expenditure (65) (66), capital financing requirement (67), debt (67)–(68), financing costs (68) (69), investments (69) (70), net borrowing (70) (71), net revenue stream (71)–(72), other long term liabilities (72) (73).

#### **1.5.4 Capital receipts generated by the HRA**

~~75% of capital receipts generated by RTB and other dwelling sales will be pooled together with 50% of capital receipts from the sale of land without buildings (net of capital allowances), 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).~~

#### **1.5.4 PFI, Partnerships, ALMOs and guarantees**

This is currently not applicable to Medway Council.

### **1.6 LEGAL AND REGULATORY RISK MANAGEMENT**

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

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

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

#### **1.6.1 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:

- 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
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP

- S.I. 2008 no. 414 f(Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and accounting) (Amendment) (England) Regulations 2010.
- 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,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2009
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- SORP – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Services Authority’s Code of Market Conduct
- The Council’s Standing Orders relating to Contracts
- The Council’s Financial Regulations
- The Council’s Scheme of Delegated Functions
- Revised Guidance on Investments DCLG 1.4.2010
- Localism Act 2011
- CLG Document “Implementing self-financing for council housing” -1 Feb 2011
- CIPFA Consultation “Proposed Capital Finance Arrangements Under The New Housing Finance System” Feb 2011

### 1.6.2 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 Fitch, Moodys and Standard & Poors.

### **1.6.3 Statement on the council's political risks and management of same**

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

### **1.6.4 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

### **1.6.5 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.

## **1.7 FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY RISK MANAGEMENT**

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

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

The Council will therefore:-

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

### 1.7.1 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/BACS 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 where that is a requirement of the institution being dealt with.
- 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 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 authority will ensure that the external funds we invest in, are accounted for in accordance with proper accounting practices.
- We have complied with the requirements of **SORP (pre 1st April 2010 FRS 26) and IFRS Code (post 1st April 2010 IAS 39) the Code of Practice on Local Authority Accounting** and will account for the fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Income and Expenditure Account.

### 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.

### 1.7.2 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.

### 1.7.3 Insurance cover details

#### Fidelity Guarantee insurance

The Council has 'Fidelity Guarantee' insurance cover with Zurich Municipal. This covers the insured (the Council) in respect of loss of money or other property belonging to the insured or in the insured's trust or custody for which the insured is legally responsible occurring as a direct result of any act of fraud or dishonesty committed by any Person Guaranteed specified in the Schedule during the Period of Insurance.

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 a breach of duty owed by the Insured in its professional capacity arising out of any act error or omission which is negligent accidentally committed or occasioned in good faith by:

(i) the Insured

(ii) any Agent

(iii) any other person firm or company acting jointly with the Insured

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 two types of 'Business Interruption' cover as part of its property insurance with Zurich Municipal:

(i) Gross Revenue

(ii) Additional Expenses.

The Sum Insured for Gross Revenue is £5m with an excess of £1.25m per event. The Sums Insured for Additional Expenses varies, has an Indemnity Limit of 24 months and has a £1.25m excess per event.

.

## **1.8 MARKET RISK MANAGEMENT**

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

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

### **1.8.1 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.



## TMP 1 SCHEDULE 1 – 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)

	* 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	See note 1 and 2	In-house and Fund Manager
Collateralised deposit (see note 3)	UK sovereign rating	In-house and Fund Manager
Certificates of deposit issued by banks and building societies	See note 1 and 2	In-house and Fund Manager
UK Government Gilts	UK sovereign rating	In-house buy and hold and Fund Manager
Bonds issued by multilateral development banks	AAA	In-house buy and hold and Fund Manager
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold and Fund Manager
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold and Fund Manager
Treasury Bills	UK sovereign rating	In house and Fund Manager
Government Liquidity Funds	* Long-term AAA volatility rating V1+	In-house and Fund Manager
Money Market Funds	* Long-term AAA volatility rating V1+	In-house and Fund Manager

Note 1. Award of "Creditworthiness" Colour by Sector Treasury services as detailed in paragraph 12.2 Capita Asset Services, Treasury Solutions

Note 2. Inclusion within the Investee approved Counterparty list as detailed in paragraph 12.2

**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.

**1.8.2 NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of 70% \*\* will be held in aggregate in non-specified investment

1. Maturities of ANY period

	* Minimum Credit Criteria	Use	** Max % of total investments	Max. maturity period
<b>Fixed term deposits with variable rate and variable maturities:</b> -Structured deposits	See note 1	In-house	£10m	Lower of 5 years or Sector Capita Asset Services duration rating

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 – banks and building societies	See note 1	In-house	40%	As per Sector Capita Asset Services duration rating
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1 and 2	In-house and Fund Manager	40%	As per Sector Capita Asset Services duration rating and see note 3
Certificates of deposit issued by banks and building societies	See note 1 and 2	In-house and Fund Manager	40%	As per Sector Capita Asset Services duration rating and see note 3
UK Government Gilts	UK sovereign rating	In-house and Fund Manager	40% In-house 100% Investec	In-house see note 1, Investec see note 2
Bonds issued by multilateral development banks	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Manager	20% in-house 40% Investec	In-house see note 1, Investec see note 2

Note 1. Award of "Creditworthiness" Colour by Sector Treasury services as detailed in paragraph 12.2 Capita Asset Services, Treasury Solutions

\*\* If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

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.

Note 2, Inclusion within the Investec approved Counterparty list as detailed in Section 12.2.

Note 3, Investec limits – Portfolio average to be up to 3 years, individual investments to a maximum of 10 years.

## **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 monthly review meetings with the treasury management team
- b. reviews with our treasury management consultants
- c. annual treasury outturn report as reported to full council
- d. mid year review to full council
- e. comparative reviews
- f. strategic, scrutiny and efficiency, VFM reviews

#### **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: -

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year
- g. comparison of return on investments to the investment benchmark
- h. compliance with Prudential and Treasury Indicators
- i. other

#### **2.1.4 Comparative review and benchmarking**

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

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

## 2.2 Benchmarks and Calculation Methodology

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

### 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  
Weighted average rate of return  
Weighted average maturity  
Weighted average credit risk

#### 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.

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

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

### **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) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

**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.

## 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);
- leasing.

### 4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

The latest version of the Treasury Management Strategy is appended to this document.

### 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:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
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	●	●
 <b>Other Methods of Financing</b>		
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 responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

#### **4.5 INVESTMENT LIMITS**

The 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 and Treasury 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 Audit~~ 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 Audit~~ 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 Audit~~ 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**

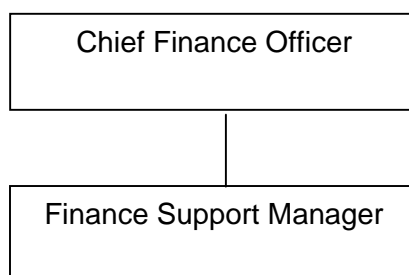
- a) Approvals of payments on Natwest Bankline payments system are segregated from input of payments.
- b) Treasury paperwork approval is segregated from approval of payments on Bankline.
- c) A check is made by the approver on the validity of the deals and that all payments due are being made.

### **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.

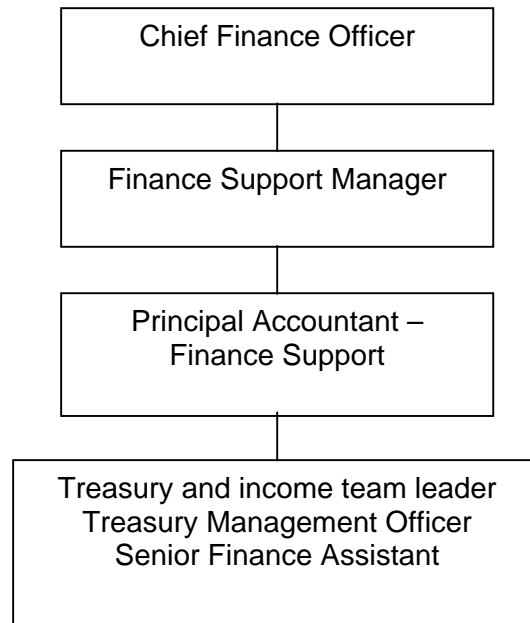
The structure for decision-making and delegation of responsibility for long-term borrowing is as follows: -

1. Strategy and decisions on borrowing and lending.



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~~ **Scrutiny Audit** 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~~ **Scrutiny Audit** 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: -**

	<b>Close of Business</b>	<b>Latest time for payment release</b>
<b>CHAPS</b>	17:00	15:49 or 16:49 for Natwest accounts
<b>BACS</b>	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 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 PROGRAMME OF REPORTING**

- a) Annual reporting requirements before the start of the year: -
  - review of the organisation's approved clauses, treasury management policy statement and practices
  - strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- b) Mid-year review
- c) Annual review report after the end of the year

### **6.2 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 to ~~Business Support Overview and Scrutiny Audit~~ 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:

- Prudential and Treasury Indicators
- the current treasury portfolio
- 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.

### **6.3 THE ANNUAL INVESTMENT STRATEGY STATEMENT**

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of high credit quality to determine what are specified investments as distinct from non specified investments
- c) Which specified and non specified instruments the Council will use
- d) Whether they will be used by the in house team, external managers or both

- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Use of a cash fund manager
- n) Policy on the use of external service providers

#### **6.4 THE ANNUAL MINIMUM REVENUE PROVISION STATEMENT**

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

#### **6.5 POLICY ON PRUDENTIAL AND TREASURY INDICATORS**

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

The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council

#### **6.6 MID YEAR REVIEW**

The Council will review its treasury management activities and strategy on a six monthly basis. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

#### **6.7 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY**

An annual report will be presented to the ~~Business Support Overview and Scrutiny~~ Audit 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) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

**6.8 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.

**6.9 PUBLICATION OF TREASURY MANAGEMENT REPORTS**

The Treasury Management Strategy, mid year review and outturn reports will all be published on the internet as part of Committee Agendas and Reports.



## **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 this 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.~~

### **7.2 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.

### **7.3 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- 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 Quarterly Budget Monitoring Report**

Quarterly Budget Monitoring reports are produced for 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.

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.

### **8.2 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.

### **8.3 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.

### **8.4 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.

### **8.5 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.

### **8.6 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 PROCEEDS OF CRIME ACT 2002 (POCA)**

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

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

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

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

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

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

### **9.3 The Money Laundering Regulations 2007**

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FSA) are required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions. In December 2007 the UK Government published the Money Laundering Regulations 2007, which replaced the Money Laundering Regulations 2003.

### **9.4 Local authorities**

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA, but are not legally obliged to apply the provisions of the Money Laundering Regulations 2007. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is the Monitoring Officer.

- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Monitoring Officer and it shall be a requirement that all services and departments implement this corporate policy and procedures.

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

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

Before accepting loans from individuals, the Council will confirm the identity of the lender.

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

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

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

### **9.7 Council Constitution**

Council-wide Anti-money laundering policy is included in the Council's Constitution. Details can be found at <http://www.medway.gov.uk/pdf/5.11%20-%20Anti-Money%20Laundering%20Policy21%20August%202013.pdf>

## **10 TMP 10 TRAINING AND QUALIFICATIONS**

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

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. 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 level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

### **10.1 DETAILS OF APPROVED TRAINING COURSES**

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

### **10.2 RECORDS OF TRAINING RECEIVED BY TREASURY STAFF**

The 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  
Treasury Management Officer – NVQ3 in Accounting

### **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.

**10.7 Member training records**

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

**10.8 Members charged with governance**

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

## **11 TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**

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

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

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

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

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

#### **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~~ Capita Asset Services  
Their address is ~~17 Rochester Row, London SW1P 1QT~~ 71 Victoria Street, London, SW1 0XA Tel: 0871 6646800
- b) Regulatory status: investment adviser authorised by the FSA
- c) Contract commenced 30/04/2013 and runs for 1 year.
- d) Cost of service is £19,000 per year.
- e) Payments due in May and November.

#### External Fund Managers

- a) Name of supplier of service is Investec Asset Management Limited.
- b) Regulatory status: external fund manager authorised by the FSA
- e) 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.

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
  - Minimum Revenue provision policy statement
  - Annual Treasury Review Report
  - Treasury Management monitoring reports (e.g. half yearly)
  - Annual accounts and financial instruments disclosure notes
  - Annual budget
  - 3-Year Capital Plan

Minutes of Council / Cabinet / committee meetings

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