

CABINET

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TREASURY MANAGEMENT STRATEGY 2017/2018

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Summary

This report presents the Council's Treasury Management Strategy for the 2017/2018 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

1. Budget and Policy Framework

- 1.1 Audit Committee is responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement. The Constitution also specifies the role of Cabinet in implementing and monitoring treasury management policies and practices.
- 1.2 Following scrutiny by Audit Committee, Cabinet will consider the strategy taking into account this Committee's comments.
- 1.3 Final approval of the policy and the setting of prudential indicators is a matter for Council on 23 February 2017.

2. Background

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
- 2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-

term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.3 CIPFA defines treasury management as:

“The management of the local 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. ”

2.4 Reporting requirements

2.5 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

2.5.1 Prudential and treasury indicators and treasury strategy (this report): The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

2.5.2 A mid-year treasury management report: This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

2.5.3 An annual treasury report: This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.6 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

3. Treasury Management Strategy for 2017/18

3.1 The strategy for 2017/18 covers two main areas:

3.1.1 Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

3.1.2 Treasury management issues;

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

3.1.3 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

3.2 Training

3.2.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. The training needs of Members and of treasury management officers are periodically reviewed.

3.3 Treasury management consultants

3.3.1 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

3.3.2 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.

3.3.3 It 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.

4. **The Prudential and Treasury Indicators 2017/18 – 2019/20**

4.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members overview and confirm capital expenditure plans.

4.2 The Capital prudential indicator is contained within Appendix 3. This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Due to uncertainties over future funding the Capital expenditure it is likely that these indicators will evolve as the budget setting process progresses.

4.3 It is a statutory duty for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the authorised Limit represents the legislative borrowing limit.

4.4 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'.

- 4.5 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 3 of this report.
- 4.6 The Authorised Limit and Operational Boundary for external borrowing within Appendix 3 differentiate between external borrowing and "other long term liabilities". Other long term liabilities are other methods the authority has used to finance capital expenditure including embedded leases. Embedded leases are where we pay for the lease of equipment by our contractors, for example refuse collection. Currently our embedded leases account for £497,000. We have therefore set the Operational Boundary for other long term liabilities at £500,000 and £550,000 for Authorised Limit in 2017/18 as well as 2018/19 and 2019/20.
- 4.7 The Prudential and Treasury indicators are set out in Appendix 3 to this report and are relevant for the purposes of setting an integrated strategy.

5. Borrowing requirement

- 5.1 In recent years the Council has used available cash balances to fund capital expenditure in preference to taking new external borrowing. Principally, because of the profile of the capital programme, the cash flow position is now such that in order to maintain liquidity we will need to take out external borrowing to manage our cash flow over the medium term.
- 5.2 It is envisaged that borrowing will have increased by £25.0m over the course of 2016/17, with further borrowing of £12.5m in 2017/18 and £2.0m in 2018/19 before making net repayments of £12.8m in 2019/20. These figures may be considerably lower dependant on slippage and changes to the capital programme and funding.

6. Borrowing Strategy

- 6.1 The Council is currently maintaining an under-borrowed position. This means that the Capital Financing Requirement has not been fully funded with loan debt. Due to this and the availability of inexpensive short term loans, the council wishes to avail itself of the opportunities offered by low interest rates to maximise its investment returns while remaining within its under-borrowed position. This represents a change from the previous policy of not borrowing in advance of need.
- 6.2 The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

6.3 Short term borrowing rates and investment returns are very low and are expected to remain so for the medium term. Subject to factors outlined above, borrowing requirements will be met by use of short term loans. This approach minimises net cost of financing as it avoids the cost of carrying large cash balances which would need to be invested for a lower return than the borrowing cost.

7. Prospects for Interest Rates

7.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following gives Capita Asset Services' central view:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

7.1.1 The Monetary Policy Committee (MPC), cut Bank Rate from 0.50% to 0.25% on 4 August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017–2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

- 7.1.2 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 7.1.3 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
- 7.1.4 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.
- 7.1.5 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.
- 7.1.6 Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:
- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
 - Major national polls:

- Italian constitutional referendum 4.12.16 resulted in a ‘No’ vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
 - Weak capitalisation of some European banks, especially Italian.
 - Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
 - UK economic growth and increases in inflation are weaker than we currently anticipate.
 - Weak growth or recession in the UK’s main trading partners - the EU and US.

7.1.7 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include:

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK’s sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

8. Investment and borrowing rates

8.1 Investment returns are likely to remain low during 2017/18 and beyond;

8.2 Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a ‘hard Brexit’, the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

- 8.3 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

9. Current Portfolio Position

- 9.1 The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2016/2017	2017/2018	2018/19	2019/20
	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
External debt				
Debt at 1 April	162,987	188,142	200,534	202,587
Other long-term liabilities (OLTL) at 1 April	497	243	0	0
Expected change in Debt	24,912	12,393	2,052	(12,818)
Expected change in OLTL	(254)	(243)	(0)	(0)
Actual gross debt at 31 March	188,142	200,535	202,587	189,769
The Capital Financing Requirement	261,725	262,733	261,148	259,425
Under borrowing	73,583	62,198	58,561	69,565

- 9.2 The Council has examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce size of the external debt position. However large premiums would be incurred by such action and make this course of action unattractive in the short term. This situation will be monitored in case the position changes.
- 9.3 The Council awaits the outcome of the objection to the 2015-16 Statement of Accounts relating to the LOBO loans. In the meantime exploratory discussions with lenders have indicated that early repayment would be prohibitively expensive. Unless the situation changes the current intention is to hold these debts until maturity.
- 9.4 The general aim of this treasury management strategy is to optimise treasury management performance, recognising that there is little opportunity to restructure long term debt, and therefore a need to maximise investment returns whilst adhering to the core principles of security, liquidity, and only then, yield.
- 9.5 The updated 2017-18 Strategy recognises the opportunities presented by the current economic conditions as characterised by low interest rates.
- 9.6 Bank rate is not expected to rise until 2019 and this supports the strategy to resist long- term borrowing, as over the next three years, investment rates are expected to remain below long-term borrowing rates.
- 9.7 Against this background caution will be adopted with the 2017-18 treasury operations. The Chief Finance Officer will monitor the interest rate market and

adopt a pragmatic approach to changing circumstances with decisions reported within the reviews of this strategy.

- 9.8 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017-18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
- 9.9 The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

10. Debt Rescheduling

- 10.1 As short-term borrowing rates will be considerably cheaper than longer-term fixed interest rates, there may be potential 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 the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 10.2 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 treasury strategy
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 10.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 10.4 Decisions related to rescheduling will similarly be reported in reviews of this strategy.

11. Annual Investment Strategy

11.1 Investment Policy

- 11.2 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then the return.
- 11.3 In accordance with guidance from CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are Short Term and Long Term ratings.

- 11.4 Ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings. This is fully integrated into, the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.
- 11.5 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 11.6 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.
- 11.7 Investment instruments identified for use in the financial year are listed in Appendix 5 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.
- 11.8 Creditworthiness policy
- 11.9 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moodys and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following 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.
- 11.10 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:
- Yellow – 5 years
 - Purple – 2 years
 - Blue – 1 year (only applies to nationalised or semi nationalised UK Banks)
 - Orange – 1 year
 - Red – 6 months
 - Green – 100 days
 - No Colour – not to be used

- 11.11 The Capita Asset Services creditworthiness service uses a wider array of information than just primary. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.
- 11.12 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of F1, a Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 11.13 All credit ratings will be monitored primarily via Capita Asset Services updates by Officers on a continuous basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services 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 via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 11.14 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.
- 11.15 Counterparty Limits
- 11.16 The current counterparty limits are set as;
- in-house team £20 million limit per counterparty and £25 million for counterparties with a Capita Asset Services duration rating of 12 months or above.
- 11.17 No amendments are requested to these counterparty limits.
- 11.18 Country limits
- 11.19 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.
- 11.20 In addition:
- no more than £40m will be placed with any non-UK country at any time;
 - limits in place will apply to a group of companies;
 - sector limits will be monitored regularly for appropriateness.

11.21 Investment Strategy

11.22 In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

11.23 Investment returns expectations. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

11.24 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

11.25 The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

11.26 Investment in Property Funds

11.27 Property Funds are a form of investment, comprising a portfolio of commercial properties to achieve investment returns through rental income and capital growth. However, the value of such investments may fall as well as rise. There may also be restrictions on redemption of the investment. This type of investment is regarded as a 5 to 7 year minimum timeframe.

11.28 Due diligence was undertaken before the Council invested in the CCLA Property Fund and the CFO would carefully consider the Council's cash balances and cashflow projections before investing further amounts.

11.29 Investment in Money Market Funds

11.30 Money Market Funds (MMFs) offer enhanced returns compared with bank call accounts while reducing bail- in risk through diversification. Members are asked to approve the use of MMFs as part of the Council's investment portfolio.

11.31 End of year investment report

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

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

12.1 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. Whilst the County rate at a projected 5.162% remains marginally higher than our own average long- term debt rate of 4.218% for 2016/17, the penalty involved in early repayment makes early redemption an unattractive option. The outstanding principal at 1 April 2017 will be £36.9 million.

13. **Minimum Revenue Provision (MRP)**

13.1 The Minimum Revenue Provision is explained and the Policy Statement for 2016/17 is set out at Appendix 1.

13.2 An annuity method of allocating amounts of MRP to each year of asset life was adopted with effect from 2015/16. This works in a similar way to a repayment mortgage where the principal repaid in the early years is small but grows proportionally towards the end of the repayment period. Similarly the amount of MRP under this method starts with a small level of provision and rises over the life of the assets.

14. **Risk management**

14.1 Risk and the management thereof is a feature throughout the strategy and in detail within the Treasury Management Practices 1.

15. **Diversity Impact Assessment**

15.1 The Treasury Management Strategy does not directly impact on members of the public as it deals with the management of the local 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. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group (Appendix 6 refers).

16. **Audit Committee – 10 January 2017**

16.1 **Discussion:**

Members considered a report regarding the Council's Treasury Management Strategy for the 2017/2018 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The following issues were discussed:

- The Council's contract with Capita Asset Services for external

treasury management advice was due to expire at the end of February 2017. In response to a question about the possibility of a joint procurement exercise with other councils, officers advised that this had been discussed with other Kent councils but everyone had concluded that it would be better to procure individually as a joint approach would increase the value of the contract and EU procurement rules would then apply. A Member asked officers to bear in mind that when the contract came up for renewal again the procurement rules may have changed and joint procurement may be easier.

- A Member asked what training had been provided to the Members of the Committee, given the CIPFA code required that Members with responsibility for treasury management received adequate training. The Chief Finance Officer commented that the specification for the contract for external treasury management advice would include a minimum of two Member training sessions per year for the Committee. The possibility of this being opened up to all Members would be looked into.
- Due to the Council's under-borrowed position and the availability of inexpensive short term loans, the Council wished to avail itself of the opportunities offered by low interest rates to maximise its investment returns while remaining within its under-borrowed position. This represented a change from the previous policy of not borrowing in advance of need.
- Money Market Funds (MMFs) offered enhanced returns and it was proposed to use MMFs as part of the Council's investment portfolio. Many other councils followed the same approach. In response, a Member commented that there may be similar concerns from some Members with this proposal as with the proposal that the Council should invest in the CCLA property fund. Another Member asked how volatile these products were. Officers assured Members that they were very safe investments, although the returns were not high.
- In response to a question about the likely risks and impact on the Council following Article 50 being triggered by the end of March as part of the UK's exit from the EU, officers advised that any impact on the Council was likely to be a result of the wider effect on the UK economy and interest rates, as well as the possible consequences for levels of revenue support grant.
- Noting that borrowing increased by £25m over the course of 2016/17, a Member asked if this represented an additional £25m of unplanned borrowing. Officers replied that this was not the case and this was a reference to the fact that there had been £25m more borrowing than the previous year. This was due to capital expenditure and was not seen as a matter of concern by officers.

16.2 The Committee agreed to note the report and forward its comments on to Cabinet.

17. Financial and legal implications

17.1 The finance and legal positions are set out throughout the main body of the report.

18. Recommendations

- 18.1 The Cabinet is asked to consider the comments of the Audit Committee, as set out in paragraph 16 of the report.
- 18.2 The Cabinet is asked to recommend to Full Council the Treasury Management Strategy as set out in the report and Appendices 1-5 to the report including the proposed revisions:
- 18.2.1 The change in borrowing strategy to enable the Council to borrow in advance of need.
- 18.2.2 The use of Money Market Funds as part of the Council's investment portfolio.
- 18.2.3 The removal of the £5m counter party limit and the imposition of a maximum of 40% of total investments in Property Funds.
- 18.3 The Cabinet is asked to approve the amendments to the Treasury Management Practices as set out in Appendices 7-8 to the report.

19. Suggested reasons for decision

- 19.1 Cabinet has the responsibility to make recommendations to Full Council on the approval of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement and has responsibility for the implementation of the Treasury Management Practices and associated schedules.

Appendices

1. Minimum Revenue Provision Policy Statement
2. Interest rate forecasts
3. Prudential and Treasury indicators
4. Specified and non specified investments
5. Approved countries for investments
6. Diversity Impact Assessment Screening Form
7. Amendments to Treasury Management Practices
8. Treasury Management Practices

Background Papers

None

Lead officer contact

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Minimum Revenue Provision Policy Statement 2016/17

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2007/2008, and assessed MRP for 2007/2008 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.

In setting the Minimum Revenue Provision Policy, Medway Council has regard to the guidance and will set a policy to ensure a prudent provision for the repayment of debt.

MRP is based on the estimated lives of assets funded from debt.

The Council will treat all expenditures as not ranking for MRP until the year after the scheme or asset to which they relate is completed and/or brought into use

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.

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 which 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.

In the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), or where borrowing has occurred but will be repaid by future Capital Receipts or agreed income from other source, there will be no Minimum Revenue Provision made.

There is no requirement on the HRA to make a minimum revenue provision, though in the interests of prudence the council has opted to do so.

INTEREST RATE FORECASTS 2017-2020

PWLB rates below have taken into account the 20 basis points certainty rate reduction effective from 1.11.2012.

Capita Asset Services Interest Rate View													
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

APPENDIX 3

Prudential and Treasury Indicators

PRUDENTIAL INDICATORS	2017/2018	2018/2019	2019/2020
Extract from budget and rent setting report	Estimate	Estimate	Estimate
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	32,418	5,146	317
HRA	7,054	7,256	6,579
TOTAL	39,472	12,402	6,894
Ratio of financing costs to net revenue stream			
Non - HRA	4.46%	4.47%	5.00%
HRA	14.44%	14.90%	15.60%
Gross borrowing requirement			
brought forward 1 April	187,899	200,292	202,344
carried forward 31 March	200,292	202,344	189,526
in year borrowing requirement	12,393	2,052	(12,818)
Capital Financing Requirement as at 31 March			
Non – HRA	219,373	217,315	214,052
HRA	43,360	43,833	45,373
TOTAL	262,733	261,148	259,425
Annual change in Cap. Financing Requirement			
Non – HRA	1,307	2,057	(3264)
HRA	(300)	473	1,540
TOTAL	1,007	(1584)	(1724)
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	12.69	5.30	5.10
Increase in average housing rent per week	(2.90)	0.30	0.52

APPENDIX 3

TREASURY MANAGEMENT INDICATORS	2017/2018	2018/2019	2019/2020
	Estimate £'000	Estimate £'000	Estimate £'000
Authorised Limit for external debt -			
Borrowing	439,620	436,253	432,798
other long term liabilities	550	550	550
TOTAL	440,170	436,803	433,348
Operational Boundary for external debt -			
Borrowing	399,655	396,549	393,452
other long term liabilities	500	500	500
TOTAL	400,155	397,094	393,952
Actual external debt	200,292	202,344	189,526
HRA Maximum CFR Debt Limit	45,846	45,846	45,846
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments (excluding LOBOs)	40%	40%	40%
LOBO Limit	65%	65%	65%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£150,000	£150,000	£150,000

TABLE 5: Maturity structure of fixed rate borrowing during 2017/2018	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%	0%

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	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	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 Managers
Money Market Funds	* Long-term AAA volatility rating V1+	In-house and Fund Managers

Note 1. Award of “Creditworthiness” Colour by Capita Asset Services as detailed in paragraph 11.2

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.

APPENDIX 4

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
Fixed term deposits with variable rate and variable maturities: - Structured deposits	See note 1	In-house	£10m	Lower of 5 years or Sector duration rating
Property Funds	See note 2	In-house	40%	N/A

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

Note 1. Award of “Creditworthiness” Colour by Sector Treasury services as detailed in paragraph 11.2

APPENDIX 4

Note 2 Property Funds are not credit rated.

** 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.

Approved countries for investments – based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K

AA-

- Belgium

APPENDIX 6

Diversity Impact Assessment: Screening Form

Directorate	Name of Function or Policy or Major Service Change		
BSD	Treasury Management Strategy		
Officer responsible for assessment	Date of assessment	New or existing?	
Jonathan Lloyd	12/12/2016	Existing	
Defining what is being assessed			
1. Briefly describe the purpose and objectives	The Treasury Management Strategy is the strategy that the Council applies to effectively manage its Treasury Function. This is defined by CIPFA as <i>The management of the local 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.</i>		
2. Who is intended to benefit, and in what way?	All stakeholders with a safe and effective Treasury Management Strategy		
3. What outcomes are wanted?	The successful and secure management of the local 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.		
4. What factors/forces could contribute/detract from the outcomes?	<u>Contribute</u> Effective Strategy, Good planning Effective use of information and intelligence	<u>Detract</u> Resources, Further cuts	
5. Who are the main stakeholders?	The Chief Finance Officer, Full Council and residents		
6. Who implements this and who is responsible?	Chief Finance Officer, and the Finance Operations and Strategy Teams		
Assessing impact			
7. Are there concerns that there <u>could</u> be a differential impact due to <i>racial/ethnic groups</i>?	YES		
	NO		
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due racial or		

APPENDIX 6

	ethnic group membership.	
8. Are there concerns that there <u>could</u> be a differential impact due to <i>disability</i>?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due disability.	
9. Are there concerns that there <u>could</u> be a differential impact due to <i>gender</i>?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due gender.	
10. Are there concerns there <u>could</u> be a differential impact due to <i>sexual orientation</i>?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due sexual orientation.	
11. Are there concerns there <u>could</u> be a have a differential impact due to <i>religion or belief</i>?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due religion or belief.	
12. Are there concerns there <u>could</u> be a differential impact due to people's <i>age</i>?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the	

APPENDIX 6

	Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due to people's age.	
13. Are there concerns that there <u>could</u> be a differential impact due to <i>being transgendered or transsexual</i>?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact due an individual's gender identity.	
14. Are there any <i>other</i> groups that would find it difficult to access/make use of the function (e.g. speakers of other languages; people with caring responsibilities or dependants; those with an offending past; or people living in rural areas)?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact.	
15. Are there concerns there <u>could</u> be a have a differential impact due to <i>multiple discriminations</i> (e.g. disability <u>and</u> age)?	YES	
	NO	
What evidence exists for this?	The Treasury Management Strategy does not directly impact on members of the public as it deals with the Treasury management functions of the authority. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. Hence there will not be a differential impact.	

Conclusions & recommendation

16. Could the differential impacts identified in questions 7-15 amount to there being the potential for adverse impact?	YES	
	NO	

APPENDIX 6

17. Can the adverse impact be justified on the grounds of promoting equality of opportunity for one group? Or another reason?	YES	
	NO	
Recommendation to proceed to a full impact assessment?		
NO	This function/ policy/ service change complies with the requirements of the legislation and there is evidence to show this is the case.	
NO, BUT ...	What is required to ensure this complies with the requirements of the legislation? (see DIA Guidance Notes)?	
YES	Give details of key person responsible and target date for carrying out full impact assessment (see DIA Guidance Notes)	
Action plan to make Minor modifications		
Outcome	Actions (with date of completion)	Officer responsible
Planning ahead: Reminders for the next review		
Date of next review	January 2018	
Areas to check at next review (e.g. new census information, new legislation due)		
Is there <i>another</i> group (e.g. new communities) that is relevant and ought to be considered next time?		
Signed (completing officer/service manager) Jonathan Lloyd	Date	12/12/2016
Signed (service manager/Assistant Director) Phil Watts	Date	16/12/2016

Amendments to the Treasury Management Practices

1. Amendment to sub-section 8 of section 1.1.1 Policy on the use of credit risk analysis techniques.

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

2. Amendment to paragraph 14 from Funds invested with Fund Managers within section 1.1.1
 - 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	Finland	Abu Dhabi (UAE)	Belgium
Canada	Hong Kong	France	Saudi Arabia
Denmark	Netherlands	Qatar	
	U.K.	U.K	

APPENDIX 7

Germany	U.S.A.		
Luxembourg			
Norway			
Singapore			
Sweden			
Switzerland			

3 Amendment to Extract from - 1.3.1 and 1.3.3 Details of approved interest rate exposure limits

- the overall borrowing limit 2017-18 £440.17m
- the upper limit for variable rate exposure in respect of borrowing has been separated into a limit for non- LOBO variable rate loans (40% of debt portfolio) and a separate one for LOBO loans (65% of the debt portfolio)

4 Amendment to paragraph 1.4.1 Approved criteria for managing changes in exchange rate levels

- Full hedging policy to apply only to significant foreign exchange exposure

5 TMP 10 Training & Qualifications

- post of Head of Finance Strategy noted as being vacant

6 TMP 11 Use of External Service Providers

- King & Shaxson added to the list of money brokers
- date of commencement and duration of Capita Asset Services contract updated
- reference to Treasury management Monitoring Report replaced by Treasury Management Mid-Year Report

TREASURY MANAGEMENT PRACTICES

January 2017

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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 with which to place investments.
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 Capita Asset Services creditworthiness service based on using colours determined by minimum combinations of ratings to derive maturity limits as follows: -

- yellow – 5 years
- purple – 2 years
- blue – 1 year (applies to nationalised or semi nationalised UK banks)
- orange – 1 year
- red – 6 months
- green – 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 Capita Asset Services document “Credit Policy Guide December 2015” for a full explanation.

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.

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

Maximum maturity periods and amounts to be placed in different types of investment instrument are specified in paragraph 8 and TMP 1 schedule 1

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 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 Capita Assset 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	Finland	Abu Dhabi (UAE)	Belgium
Canada	Hong Kong	France	Saudi Arabia
Denmark	Netherlands	Qatar	
	U.K.	U.K	
Germany	U.S.A.		
Luxembourg			
Norway			
Singapore			
Sweden			
Switzerland			

Investments will not be made with counterparties that do not have a credit rating in their own right

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.

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.

1.2.2 Details of:

a. Standby facilities

The bank allows a £0.5m overdraft facility on the group accounts. 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 £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 2016-17 £440,170

the percentage of the overall borrowing portfolio
which may be outstanding by way of short
term borrowing 40%(excluding LOBOs) LOBO limit 65%

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.

Interest rates are monitored 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 (excluding LOBOs)

40%

Upper limit for LOBOs 65%

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 Head of Finance Strategy 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 any significant 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.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice.

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 (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long term liabilities (73).

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 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.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003
- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04
- Guidance on Investments ODPM 12.3.2004 (revised 1.4.10)
- 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 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance And Accounting) (England) (Amendment) (No.2) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010
- Localism Act 2011
- S.I. 2012 no. 265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012
- S.I. 2012 No. 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012

- S.I. 2013 no. 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013
- 2012 No. 1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012
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- **Guidance and codes of practice**
- CLG Revised Guidance on Investments 1.4.2010
- CLG guidance on minimum revenue provision – Feb 2012
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2011,
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2011
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2013
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
-
- PWLB circulars on Lending Policy
- The Non Investment Products Code (NIPS) - (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.
- Financial Conduct Authority's Code of Market Conduct
-
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

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 Legal and 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 council's 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 business partner.

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 control team principal officer 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 Control Team Principal Officer 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.

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.

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. Internet based Bankline has enabled remote access to make payments, transfers and check balances. 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 -Travelers Insurance Company. 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
Term deposits – local authorities	--	In-house

Term deposits – banks and building societies	See note 1	In-house
Collateralised deposit (see note 3)	UK sovereign rating	In-house
Certificates of deposit issued by banks and building societies	See note 1	In-house
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
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
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold
Treasury Bills	UK sovereign rating	In house
Government Liquidity Funds	* Long-term AAA volatility rating V1+	In-house
Money Market Funds	* Long-term AAA volatility rating V1+	In-house

Note 1. Award of “Creditworthiness” Colour by Capital Asset Services, Treasury Solutions

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
Fixed term deposits with variable rate and variable maturities: -Structured deposits	See note 1	In-house	£10m	Lower of 5 years or Capita duration rating

2. Maturities in excess of 1 year

	* Minimum	Use	** Max % of total	Max. maturity period
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	Credit Criteria		investments	
Term deposits – local authorities	--	In-house	40%	5 Years
Term deposits – banks and building societies	See note 1	In-house	40%	As per Capita duration rating
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	See note 1	In-house	40%	As per Capita duration rating
Certificates of deposit issued by banks and building societies	See note 1 and 2	In-house	40%	As per Capita duration rating
UK Government Gilts	UK sovereign rating	In-house	40% In-house	In-house see note 1,
Bonds issued by multilateral development banks	AAA	In-house	20% in-house	In-house see note 1,
Sovereign bond issues (other than the UK govt)	AAA	In-house	20% in-house	In-house see note 1,

Note 1. Award of “Creditworthiness” Colour by Capita Asset Services services as detailed in paragraph 12.2

** 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.

3 Property Funds

Investment of up to an aggregate limit of £5m may be invested in collective property funds.

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

The Head of Finance Strategy, Principal Accountant and 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.

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

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

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
- other

2.2 Benchmarks and Calculation Methodology

Medway Council compares treasury management performance with its peers using comparative data supplied by Capita Asset Services.

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:

Other local authorities
 Other market products
 Weighted average rate of return
 Weighted average maturity
 Weighted average credit risk

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
- CCLA contract notes
- CCLA statements of units, management expenses and dividends

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:

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 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 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 Audit committee ~~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 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

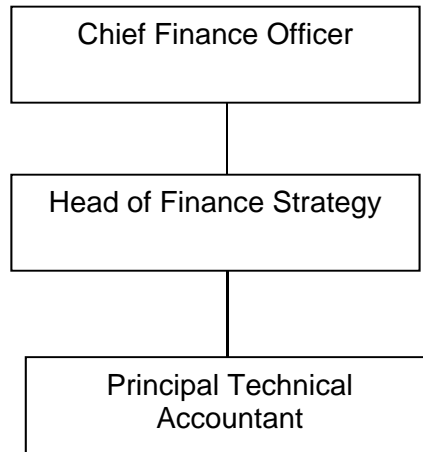
- a) Approvals of payments on Natwest Bankline payments system are segregated from input of payments.
- b) Treasury paperwork approval is segregated from approval of payments on Bankline.
- c) A check is made by the approver on the validity of the deals and that all payments due are being made.

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.

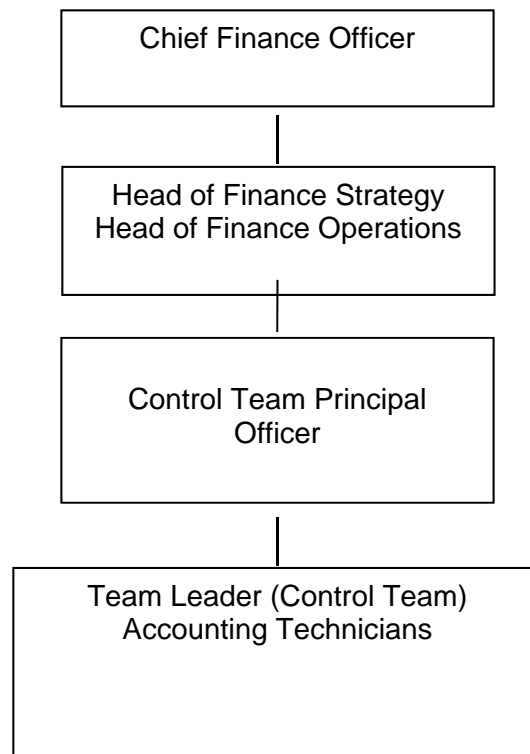
The structure for decision-making and delegation of responsibility for long-term borrowing is as follows: -

1. Strategy and decisions on borrowing and lending.



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

2. Day to day cash flow management delegated to the Head of Finance Strategy and the Control 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 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.

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.

The Chief Finance Officer may delegate his power to borrow and invest to members of his staff. The Head of Finance Strategy, the Control Team Principal Officer the Control Team Leader and Accounting Technicians 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.

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.

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

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 Head of Finance Strategy

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 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 Audit committee, Cabinet and full Council on treasury policy, activity and performance.

5.4.4 The Monitoring Officer – the Assistant Director Legal and and Corporate 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 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.
- 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. 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 RECORDING OF CONVERSATIONS

It is not the Council's policy to record 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 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 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 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 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 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 BUDGETS / ACCOUNTS / PRUDENTIAL INDICATORS

The Head of Finance Strategy 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 Head of Finance Strategy 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 Operations Manager 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 Operations Manager.

9. TMP 9 MONEY LAUNDERING

9.1 PROCEEDS OF CRIME ACT 2002

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

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

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

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

9.2 The Terrorism Act 2000

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

9.3 The Money Laundering Regulations 2007

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 FCSA register can be accessed through their website on www.fcsa.gov.uk.

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

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 Head of Finance Strategy and the Head of Finance Operations 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

Head of Finance Strategy – post vacant
Principal Accountant – CIPFA & ICAEW
Control Team Principal 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 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
King & Shaxson

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 Head of Finance Strategy will review the performance of consultants every year to check whether performance has met expectations.

- a) Name of supplier of service is Capita Asset Services. Their address is 40 Dukes Place, London EC3A 7NH Tel: 0871 6646800
- b) Regulatory status: investment adviser authorised by the FCA
- c) Contract commenced 1/3/14 and runs for 3 years.

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 Mid- Year Review Report
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.