Medway Council
Serving You

CABINET

6 FEBRUARY 2018

TREASURY MANAGEMENT STRATEGY 2018/2019

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from: Phil Watts, Chief Finance Officer

Author: Jonathan Lloyd, Principal Technical Accountant

Summary

This report presents the Council's Treasury Management Strategy for the 2018/2019 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 on 9 January 2018, 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 22 February 2018.

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 Medway Council defines its treasury management activities as: *"The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".*

3. Treasury Management Strategy 2018/2019

3.1 The Strategy (Appendix A) has been prepared in line with CIPFA's Local Authority Treasury Management Code, and sets out the Council's borrowing requirement and strategy, its strategy in respect of investments, provides details of the Council's current portfolio position and sets out the prudential and treasury indicators that will be used to monitor and measure treasury performance.

3.2 This version of the Strategy attempts to provide further narrative advice and guidance to enable a clearer understanding of the Council's treasury activities.

3.3 The document has been reformatted in line with the new Medium Term Financial Strategy to aid readability.

4. Risk management

4.1 Risk and the management thereof is a feature throughout the Strategy and in detail within the Treasury Management Practices 1 (Appendix C).

5. Diversity Impact Assessment

5.1 A Diversity Impact Assessment is set out at Appendix B. 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.

6. Audit Committee

6.1 The Audit Committee considered this report on 9 January 2018. Members considered a report which presented the Council's Treasury Management Strategy for the 2018/2019 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy. Members discussed the following issues:

6.2 **Investments in property** – given the possibility of a crash in property values, a Member queried what the appropriate proportion of the Council's investments should be in property funds and whether there were plans to increase this proportion, making the Council above average in comparison with other councils. Officers responded that figures for other councils on this were not available. The Council had invested approximately £23m in property funds, which was considered to be a relatively small proportion of the overall size of the Council's assets. There was an inherent risk in investing in property and there was a view amongst some experts that all asset classes were currently over valued.

6.3 **Country limits –** noting that in previous years country limits had been higher, a Member queried why the Council was lowering limits. The Committee was advised that the Strategy only allowed investments in countries that met the minimum criteria based on advice from external advisors. Country ratings would change over time. At present no investments were made outside the United Kingdom. Accepting that this was therefore a theoretical issue, a Member suggested that the minimum sovereign credit rating should be set at AA and not AA-. Members were advised that the Council's treasury management advisers considered the strategy reflected a fairly prudent approach, bearing in mind the Council's risk appetite.

6.4 **Borrowing** – a Member asked how much more the Council was borrowing compared to last year and whether this was sustainable over the medium term. Officers advised that there was approximately £50m of short term borrowing and this figure had increased in recent years as a result of decisions to invest in property funds and also due to using reserves.

6.5 **LOBOs (borrowing under lender's option/borrower's option) –** a Member suggested that the Strategy be amended to make it clear that the Council would not invest in LOBOs in future. Recognising that these products were not currently available this would send a clear statement about the Council's position. Other Members commented that the test case into the objections about LOBOs had not been resolved so there was the potential for these products to come back on the market and by amending the policy the Council would be tying its hands, albeit just for the 12 month lifetime of the Strategy.

6.6 **Training for Members** – noting that the CIPFA Code required that members with responsibility for treasury management receive adequate training in treasury management; Members asked that training be provided. Reflecting on previous training events, the consensus was it would be preferable for a half day session facilitated by a different external advisor.

6.7 The Committee agreed to note the report.

7. Financial and legal implications

7.1 The finance and legal positions are set out throughout the Treasury Strategy itself. In order to achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising the exposure to risk. In order to achieve this, investments are only placed with institutions which meet the criteria set out within this report. Investment durations do not exceed those as advised by Link Asset Services credit ratings which are associated with the specific institutions. Where the authority is required to borrow to meet the needs of the authority, officers will seek advice from Link Asset Services on timings and options in order to ensure the best deal for the authority.

8. Recommendations

8.1 The Cabinet is asked to note the comments of the Audit Committee, as set out in section 6 of the report.

8.2 The Cabinet is asked to recommend approval of the Treasury Management Strategy 2018/2019, as set out in Appendix A to the report, to Full Council.

8.3 The Cabinet is asked to approve the Treasury Management Practices, as set out in Appendix C to the report.

9. Suggested reasons for decisions

9.1 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

Lead officer contact

Jonathan Lloyd, Principal Technical Accountant
Telephone No: 01634 332787 Email: jonathan.lloyd@medway.gov.uk

Appendices

Appendix A - Treasury Management Strategy 2018/2019
Appendix B - Diversity Impact Assessment Screening Form
Appendix C - Treasury Management Practices

Background Papers

None

Treasury Management Strategy

Medway Council

2018/19

Contents

Introduction

1.1. 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.

1.2. 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.

1.3. 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*."

1.4. The Prudential Code prevents the authority borrowing for revenue purposes. Non- current assets not financed by unuseable reserves are financed by borrowing. This borrowing need is known as the capital financing requirement (CFR).

1.5. Borrowing may be from external sources such as the Public Works Loans Board, other authorities or commercial sources or it may be borrowed internally using cash otherwise available for investment (useable reserves). If internal borrowing takes place, the authority is said to be under borrowed. This does not imply that the authority should necessarily increase its external borrowing but merely reflects the extent to which additional external borrowing would be lawful.

1.6. The authority cannot borrow in excess of the CFR except where it is borrowing in advance of need to void expected interest rate rises. If it were to borrow in excess of CFR for an extended period, this would be borrowing for revenue purposes which is unlawful. The Council sets an authorised limit to take account of any such borrowing in advance of need. Our practice is to set the authorised limit 10% higher than CFR.

1.7. Authorities are required to set aside part of their revenue budgets each year and place this is an unuseable reserve as a provision to repay borrowing. This requirement is known as the minimum revenue provision MRP. Many authorities have built up large cash balances because their annual MRP exceeds their need to fund capital expenditure.

1.8. Authorities have been given freedom to determine the methodology for calculating MRP. Medway members approved the use of an annuity method of provision which resulted in around £3million less MRP than under the traditional straight line approach. Under the annuity basis smaller sums are provided in the early years of the loan but these increase year on year. The effect is a bit like the principal element of a repayment mortgage where in the early years little of the monthly is repaid but towards the end of the mortgage most of the repayment is of the capital outstanding. However unlike the repayment mortgage the interest element remains constant throughout the term of the underlying loan. A more traditional approach to MRP is to set aside the same proportion of the loan each year. The saving generated from the use of the annuity method has enabled higher expenditure on services than would otherwise have been possible, but results in lower levels of cash balances which in turn means as capital expenditure takes place any borrowing requirement needs to be met by more external debt.

1.9. The Department for Communities & Local Government have issued a consultation on proposed changes to the prudential framework; this closed in December 2017 but the outcome is not known at the date of production of this Strategy. The current proposal is to restrict the number of years over which provision is made to 50 years for land and 40 years for other assets. The Council's MRP policy may need to be revised once the revised framework is published.

1.10. The CFR is increased when capital expenditure is financed by borrowing and is reduced when provision is made by way of MRP. The relationship between the MRP provision made each year and the extent of internal borrowing needed is a key component in determining whether the authority's liquidity (cash) is increasing or reducing.

1.11. Unuseable reserves fund working capital, external investments and the internal borrowing.

1.12. Recent investment in property funds has been facilitated largely by switching some of the internal borrowing to external borrowing. This has reduced the amount by which Medway is under borrowed. As with all investment returns are not guaranteed and the value of the investments may fall as well as rise. Members need to be comfortable that the expected additional returns warrant the level of risk undertaken.

Reporting requirements

1.13. 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.

1.13.1. 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).

1.13.2. 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.

1.13.3. 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.

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

Treasury Management Strategy for 2018/19

1.15. The strategy for 2018/19 covers two main areas:

1.15.1. Capital issues

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

1.15.2. 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.

1.15.3. 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.

1.16. **Training**

1.16.1. 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.

1.17. **Treasury management consultants**

1.17.1. The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

1.17.2. 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.

1.17.3. 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.

The Prudential and Treasury Indicators 2018/19 – 2020/21

1.18. 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.

1.19. The Capital 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. In particular the Council may provide loan financing to the recently formed Medway Development Company (MDCL). No decision has been made but any loans are likely to be classified as capital expenditure. The totals in the table below, also those in paragraph 1.20 as well as the capital financing requirement (CFR) and other ratios in Appendix 3 would be affected.

Capital Expenditure	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
C&A	12,255	6,648	5,450	4,856
RCET	24,819	18,218	6,636	6,564
BSD	148	20,000	0	0
Transformation	2,447	2,740	0	0
HRA	6,080	5,860	4,697	4,688
Total	**45,749**	**53,466**	**16,783**	**16,108**

1.20. The table below summarises how the expenditure plans are being financed. Schemes are funded from borrowing where other sources are not available.

Capital Funding	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Grants	20,921	19,581	12,161	10,049
S106	4,829	1,658	1,000	1,000
Receipts	2,238	0	0	164
Heritage Lottery	266	1,533	0	166
Reserves/RCCO	4,944	6,114	4,697	4,688
Borrowing	12,551	24,580	-1,075	41
Total	**45,749**	**53,466**	**16,783**	**16,108**

1.21. 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.

1.22. 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’.

1.23. 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.

1.24. 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 £296,000. We have therefore set the Operational Boundary for other long term liabilities at £500,000 and £550,000 for Authorised Limit in 2018/19 as well as 2019/20 and 2020/21.

1.25. 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.

Borrowing requirement

1.26. 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.

1.27. It is envisaged, subject to revisions in the capital programme, that borrowing will have increased by £43.0m over the course of 2017/18, remain broadly static during 2018/19 but reduce by about £4m in each of the years 2019/20 and 2020/21.

Borrowing strategy

1.28. 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.

1.29. 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.

Prospects for Interest Rates

1.30. 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-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

1.31. As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

1.32. 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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

1.33. 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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

1.34. From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

1.35. 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.

1.36. The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit. The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world

Investment and borrowing rates

1.38. Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

1.39. Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

1.40. 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.

Current portfolio position

1.41. The Council's treasury portfolio position at 31 March 2017, 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.

	2017/18	2018/19	2019/20	2020/21
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£'000	£'000	£'000	£'000
External debt				
Debt at 1 April	202,093	245,093	265,969	260,497
Other long-term liabilities (OLTL) at 1 April	298	0	0	0
Expected change in Debt	43,000	20, 876	(5,472)	(4,220)
Expected change in OLTL	(298)	0	(0)	(0)
Expected gross debt at 31 March	245.093	265,969	260,497	256,277
The Capital Financing Requirement	265,505	286,381	280,909	276,689
Under borrowing	20,412	20,412	20,412	20,412

1.42. 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.

1.43. 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.

1.44. 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.

1.45. The updated 2017-18 Strategy recognises the opportunities presented by the current economic conditions as characterised by low interest rates.

1.46. 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.

1.47. 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.

1.48. 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.

1.49. 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.

Debt Rescheduling

1.50. 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).

1.51. 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).

1.52. 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.

1.53. Decisions related to rescheduling will similarly be reported in reviews of this strategy.

Annual Investment Strategy

1.54. **Investment Policy**

1.54.1. 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.

1.54.2. 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.

1.54.3. 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.

1.54.4. 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.

1.54.5. 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.

1.55. **Creditworthiness policy**

1.55.1. This Council applies the creditworthiness service provided by Link 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.

1.55.2. 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

1.55.3. The Link 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.

1.55.4. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) 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.

1.55.5. All credit ratings will be monitored, primarily via Link 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 Link 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 Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

1.55.6. 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.

1.56. Counterparty Limits

1.56.1. The current counterparty limits are set as;

- In-house team £20 million limit per counterparty and £25 million for counterparties with a Link Asset Services duration rating of 12 months or above.

1.56.2. No amendments are requested to these counterparty limits.

1.57. Country limits

1.57.1. 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 5. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

1.57.2. 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.

1.58. Investment Strategy

1.58.1. 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).

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

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

1.58.3. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	2.00%
Later years	2.75%

1.58.4. The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

1.59. Investment in Property Funds

1.59.1. 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.

1.59.2. 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.

1.60. Investment in Money Market Funds

1.60.1. Money Market Funds (MMFs) often offer enhanced returns compared with bank call accounts while reducing bail- in risk through diversification. Members approved the use of MMFs as part of the Council's investment portfolio and officers will consider their use when returns are considers to be attractive.

1.61. End of year investment report

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

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

1.62. 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 4.959% remains marginally higher than our own average long- term debt rate of 4.218% for 2017/18, the penalty involved in early repayment makes early redemption an unattractive option. The outstanding principal at 1 April 2018 will be £35.4 million.

Minimum Revenue Provision (MRP)

1.63. The Minimum Revenue Provision is explained and the Policy Statement for 2018/19 is set out at Appendix 1.

1.64. 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.

Appendix 1 – Minimum Revenue Provision Policy Statement 2018/19

1. In setting the Minimum Revenue Provision Policy, Medway Council has regard to the Minimum Revenue Provision (MRP) guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
2. MRP is calculated on an annuity basis over the estimated lives of assets funded from debt.
3. 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.
4. Estimated life periods will be determined under delegated powers.
5. 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.
6. 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.
7. 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.

Appendix 2 – Interest Rate Forecasts 2017-2021

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLBRate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLBView	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLBView	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLBRate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Bank Rate															
	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
5yr PWLB Rate															
	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	1.57%	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.57%	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
10yr PWLB Rate															
	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.10%	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.10%	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
25yr PWLB Rate															
	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.69%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.69%	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB Rate															
	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.41%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.41%	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Appendix 3 – Prudential and Treasury Indicators

PRUDENTIAL INDICATORS	**2018/2019**	**2019/2020**	**2020/2021**
Extract from budget and rent setting report	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non - HRA	47,606	12,086	11,420
HRA	5,860	4,697	4,688
TOTAL	53,466	16,783	16,108
Ratio of financing costs to net revenue stream			
Non - HRA	6.25%	6.75%	5.27%
HRA	10.41%	10.40%	10.30%
Gross borrowing requirement			
brought forward 1 April	245,093	245,969	260,497
carried forward 31 March	265,969	260,497	256,277
in year borrowing requirement	20,876	(5,477)	(4,220)
Capital Financing Requirement as at 31 March			
Non – HRA	243,877	238,731	234,851
HRA	42,504	42,178	41,838
TOTAL	286,381	280,909	276,689
Annual change in Cap. Financing Requirement			
Non – HRA	29,485	(5,146)	(3,880)
HRA	564	(326)	(340)
TOTAL	30,049	(5,472)	(4,220)
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase/ (decrease) in council tax (band D) per annum	10.38	9.18	(29.02)
Increase/ (decrease) in average housing rent per week	(0.26)	(0.11)	(0.18)

TREASURY MANAGEMENT INDICATORS	2018/2019	2019/2020	2020/2021
	Estimate	Estimate	Estimate
	£'000	£'000	£'000
Authorised Limit for external debt -			
Borrowing	425,019	397,511	414,358
other long term liabilities	550	550	550
TOTAL	425,569	419,550	414,908
Operational Boundary for external debt -			
Borrowing	386,381	380,909	376,689
other long term liabilities	500	500	500
TOTAL	386,881	381,409	377,189
Estimated actual external debt (31 March)	265,969	260,597	256,277
HRA Maximum CFR Debt Limit	45,846	45,846	45,846
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing	425,569	419,550	414,908
Net Principal fixed Rate investment	50,000	50,000	50,000
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments (excluding LOBOs)	100,000	100,000	100,000
LOBO Limit	102,000	102,000	102,000
Upper limit for total principal sums invested for over 1 year			
(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%

Appendix 4 – 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 CNAV, LVNAV or VNAV	* Long-term AAA volatility rating V1+	In-house and Fund Managers

Note 1. Award of "Creditworthiness" Colour by Link Asset Services as detailed in paragraph 1.55.2.

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.

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 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	£25m (original cost of investment)	N/A

2. Maturities in excess of 1 year

	*** Minimum Credit Criteria**	**Use**	**** Max total investments**	**Max. maturity period**
Term deposits – local authorities	--	In-house	£25m	5 Years
Term deposits – banks and building societies	See note 1	In-house	£25m	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	£25m	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	£25m	As per Capita duration rating and see note 3
UK Government Gilts	UK sovereign rating	In-house	£25m	see note 1
Bonds issued by multilateral development banks	AAA	In-house	£10m	see note 1
Sovereign bond issues (other than the UK govt)	AAA	In-house	£10m	see note 1

Note 1. Award of “Creditworthiness” Colour by Link Treasury services as detailed in paragraph 1.55.2

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.

Appendix 5 – 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
- Qatar

Appendix 6 – Amendments to the Treasury Management Practices

The following principal changes have been made to the TMPs compared with those published in January 2017:

Treasury Management Practice 1: Treasury Risk Management:

- TMP 1.11 The list of counterparties falling into each credit rating category has been updated.
- TMP 1.26 Approved interest rate exposures have been expressed as absolute monetary amounts rather than proportions.
- TMP 1.23 Comment added on interest rate risk arising from use of short term loans.
- TMO 1.44 Comment added on refinancing regarding the use of short term loans.

Treasury Management Practice 5: Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements:

- TMP 5.3 Structure chart updated.
- TMP 5.4 Principal Accountant added to list of officers with power to borrow and invest as delegated by the Chief Finance Officer.
- TMP 5.8 Policy on use of brokers to be based on terms offered rather than strict rotation of brokers used.

Diversity Impact Assessment: Screening Form

Appendix B

Directorate BSD	Name of Function or Policy or Major Service Change **Treasury Management Strategy**

Officer responsible for assessment	Date of assessment	New or existing?
Jonathan Lloyd	8/12/2017	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 *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. 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 *racial/ethnic groups*?	~~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 ethnic group membership.	
8. Are there concerns that there <u>could</u> be a differential impact due to *disability*?	~~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 *gender*?	~~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 *sexual orientation*?	~~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 *religion or belief*?	~~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	~~YES~~	

<table>
<tr><td><u>could</u> be a differential impact due to people's age?</td><td>NO</td><td></td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">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 to people's age.</td></tr>
<tr><td rowspan="2">13. Are there concerns that there <u>could</u> be a differential impact due to being trans-gendered or transsexual?</td><td><s>YES</s></td><td rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">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.</td></tr>
<tr><td rowspan="2">14. Are there any other 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)?</td><td><s>YES</s></td><td rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">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.</td></tr>
<tr><td rowspan="2">15. Are there concerns there <u>could</u> be a have a differential impact due to multiple discriminations (e.g. disability <u>and</u> age)?</td><td><s>YES</s></td><td rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td>What evidence exists for this?</td><td colspan="2">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.</td></tr>
</table>

<table>
<tr><td colspan="4">Conclusions & recommendation</td></tr>
<tr><td rowspan="2">16. Could the differential impacts identified in questions 7-15 amount to there being the potential for adverse impact?</td><td>~~YES~~</td><td colspan="2" rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td rowspan="2">17. Can the adverse impact be justified on the grounds of promoting equality of opportunity for one group? Or another reason?</td><td>YES</td><td colspan="2" rowspan="2"></td></tr>
<tr><td>NO</td></tr>
<tr><td colspan="4">Recommendation to proceed to a full impact assessment?</td></tr>
<tr><td>NO</td><td colspan="3">This function/ policy/ service change complies with the requirements of the legislation and there is evidence to show this is the case.</td></tr>
<tr><td>~~NO, BUT …~~</td><td>~~What is required to ensure this complies with the requirements of the legislation? (see DIA Guidance Notes)?~~</td><td colspan="2"></td></tr>
<tr><td>~~YES~~</td><td>~~Give details of key person responsible and target date for carrying out full impact assessment (see DIA Guidance Notes)~~</td><td colspan="2"></td></tr>
</table>

<table>
<tr><td colspan="3">Action plan to make Minor modifications</td></tr>
<tr><td>Outcome</td><td>Actions (with date of completion)</td><td>Officer responsible</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="3"></td></tr>
</table>

<table>
<tr><td colspan="2">Planning ahead: Reminders for the next review</td></tr>
<tr><td>Date of next review</td><td>January 2019</td></tr>
<tr><td>Areas to check at next review (e.g. new census information, new legislation due)</td><td></td></tr>
</table>

Is there *another* group (e.g. new communities) that is relevant and ought to be considered next time?		
Signed (completing officer/service manager) Jonathan Lloyd	**Date**	12/12/2017
Signed (service manager/Assistant Director) Phil Watts	**Date**	16/12/2017

Treasury Management Practices

Medway Council

January 2018

Contents

1. TMP1 – Treasury risk management

1.1. 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.

1.2. **CREDIT AND COUNTERPARTY RISK MANAGEMENT**

1.3. 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.

1.4. 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.

1.5. **POLICY ON THE USE OF CREDIT RISK ANALYSIS TECHNIQUES**

- The Council will use credit criteria in order to select creditworthy counterparties with which to place investments.
- Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors.
- Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
- 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.

1.6. This organisation will use the Link 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

1.7. 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.

1.8. 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.

1.9. 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.

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

1.11. 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 Link 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 Link Asset Services duration of less than 12 months £20m.
- Country limits – a minimum sovereign rating of AA- from Fitch Ratings (or equivalent) is required for an institution to be placed on our approved lending list, with the exception of United Kingdom, where there is no restriction on the sovereign credit rating. The maximum investment in any one country is £40m with the exception of UK which is unlimited. The list of countries which currently meet this criteria is: -

AAA	**AA+**	**AA**	**AA-**
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	Hong Kong	France	~~Saudi Arabia~~

Denmark			Qatar
		U.K	
Germany	U.S.A.		
Luxembourg			
Norway			
Singapore			
Sweden			
Switzerland			

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

1.13. 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.

1.14. 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.

1.15. **LIQUIDITY RISK MANAGEMENT**

1.16. 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.

1.17. 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.

1.18. **AMOUNTS OF APPROVED MINIMUM CASH BALANCES AND SHORT-TERM INVESTMENTS**

1.19. 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.

1.20. 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.

1.21. **INTEREST RATE RISK MANAGEMENT**

1.22. 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.

1.23. The level of interest rate risk has been increased by the current policy of borrowing short term to take advantage of very low short term interest rates.

1.24. 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.

1.25. 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.

1.26. **Details of approved interest rate exposure limits**

- the overall borrowing limit 2018-19: £403,569
- the amount of the overall borrowing portfolio which may be outstanding by way of short term borrowing is the higher of £100,000,000 or 50% of the total borrowing portfolio (excluding LOBOs) LOBO limit £102,000,000.

1.27. **Trigger points and other guidelines for managing changes to interest rate levels**

1.28. 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.

1.29. 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.

1.30. **Upper limit for variable interest rate exposure**

1.31. See 1.26 above.

1.32. **Upper limit for fixed interest rate exposure**

1.33. Upper limit for fixed interest rate exposure: 100%

1.34. **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 365 days.

1.35. **EXCHANGE RATE RISK MANAGEMENT**

1.36. 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.

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

1.38. **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.

1.39. **REFINANCING RISK MANAGEMENT**

1.40. 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.

1.41. 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.

1.42. 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.

1.43. 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.

1.44. The level of refinancing risk has been increased by the current policy of borrowing term borrowing to take advantage of very low short term interest rates.

1.45. **Debt/other capital financing, maturity profiling, policies and practices**

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

1.47. 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.

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

1.49. **Projected capital investment requirements**

1.50. 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.

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

1.52. **Policy concerning limits on affordability and revenue consequences of capital financing**

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

1.54. 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).

1.55. **PFI, Partnerships, ALMOs and guarantees**

1.56. This is currently not applicable to Medway Council.

1.57. **LEGAL AND REGULATORY RISK MANAGEMENT**

1.58. 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.

1.59. 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.

1.60. 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.

1.61. **References to relevant statutes and regulations**

1.62. 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

1.63. **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

1.64. **Procedures for evidencing the council's powers/authorities to counterparties**

1.65. 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

1.66. 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.

1.67. **Statement on the council's political risks and management of same**

1.68. 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.

1.69. **Monitoring Officer**

1.70. The Monitoring officer is the Chief Legal Officer; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.71. **Chief Finance Officer**

1.72. 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.

1.73. **FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY RISK MANAGEMENT**

1.74. 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.

1.75. 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.

1.76. 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.

1.77. **Details of systems and procedures to be followed, including internet services**

1.78. Procedures:

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

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

1.81. **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.

1.82. **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.

1.83. **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.

1.84. **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.

1.85. **Emergency and contingency planning arrangements**

1.86. In an emergency situation, the Council's Business Continuity Planning arrangements will be enacted. 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.

1.87. **Insurance cover details**

1.88. **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 either £5m or £1m, depending on the type of service being provided and the potential loss to the Council for any one event, with an excess of £1m for any one event.

1.89. **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:

a. the Insured
b. any Agent
c. any other person firm or company acting jointly with the Insured

The Sum Insured for Gross Revenue is £5m with an excess of £1.25m per event. The Sums Insured for Additional Expenses are £30m for all premises occupied by the Insured and £20m for Medway Tunnel, has an Indemnity Limit of 24 months and has a £1.25m excess per event.

1.90. **Business Interruption** – The Council also has two types of ‘Business Interruption’ cover as part of its property insurance with Zurich Municipal:

a. Gross Revenue
b. 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.

1.91. **MARKET RISK MANAGEMENT**

1.92. 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.

1.93. 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.

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

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

TMP 1 SCHEDULE 1 – SPECIFIED AND NON SPECIFIED INVESTMENTS
SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house and Fund Manager
Term deposits – local authorities	--	In-house and Fund Manager
Term deposits – banks and building societies	See note 1	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 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 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	£25m (original cost of investment)	N/A

2. Maturities in excess of 1 year

	*** Minimum Credit Criteria**	**Use**	**** Max total investments**	**Max. maturity period**
Term deposits – local authorities	--	In-house	£25m	5 Years
Term deposits – banks and building societies	See note 1	In-house	£25m	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	£25m	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	£25m	As per Capita duration rating and see note 3
UK Government Gilts	UK sovereign rating	In-house	£25m	see note 1
Bonds issued by multilateral development banks	AAA	In-house	£10m	see note 1
Sovereign bond issues (other than the UK govt)	AAA	In-house	£10m	see note 1

Note 1. Award of "Creditworthiness" Colour by Link Asset Services as detailed in paragraph 12.2

Note 2 Property Funds are not credit rated.

Note 3 Property Funds: Investment of up to an aggregate limit of £25m may be invested in collective property funds (based on original cost of investment). ** 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.

2. TMP 2 – Performance measurement

2.1. **EVALUATION AND REVIEW OF TREASURY MANAGEMENT DECISIONS**

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

2.3. For performance outcomes:

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

2.4. 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.

2.5. This will include :

a. Total debt including average rate, actual rate and maturity profile
b. Total investments including average rate, actual rate and maturity profile and changes to the above from the previous review and against the TMSS.

2.6. The treasury management team holds reviews with our consultants approximately every 6 months to review the performance of the investment and debt portfolios.

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

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

2.8. 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.

2.9. **Benchmarks and Calculation Methodology**

2.10. Medway Council compares treasury management performance with its piers using comparative data supplied by Link Asset Services.

2.11. **Debt management**

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

2.12. **Investment**

2.13. 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

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

2.15. **Policy Concerning Methods for Testing Value for money in Treasury Management**

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

3. TMP3 – Decision making and analysis

3.1. **FUNDING, BORROWING, LENDING AND NEW INSTRUMENTS/TECHNIQUES**

3.2. **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 dvidends.

3.3. **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.).

3.4. **Issues to be addressed:**

3.5. 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.

3.6. 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.

3.7. 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. TMP4 – 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

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

4.4. APPROVED TECHNIQUES

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

4.5. APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

4.6. 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

4.7. 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.

4.8. **INVESTMENT LIMITS**

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

4.10. **BORROWING LIMITS**

4.11. The Treasury Management Strategy Statement details the Prudential and Treasury Indicators.

5. TMP5 – 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 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 Chief Finance Officer 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

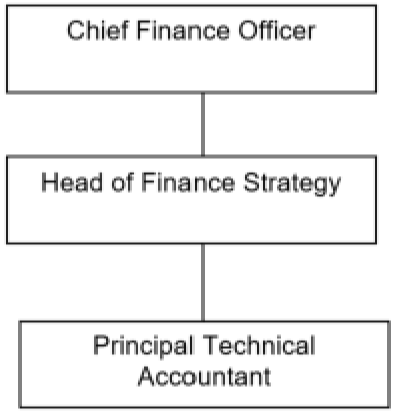
a. Approvals of payments on Natwest Bankline payments system are segregated from input of payments.
b. Treasury paperwork approval is segregated from approval of payments on Bankline.
c. A check is made by the approver on the validity of the deals and that all payments due are being made.

5.3. TREASURY MANAGEMENT ORGANISATION CHART

5.4. 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.

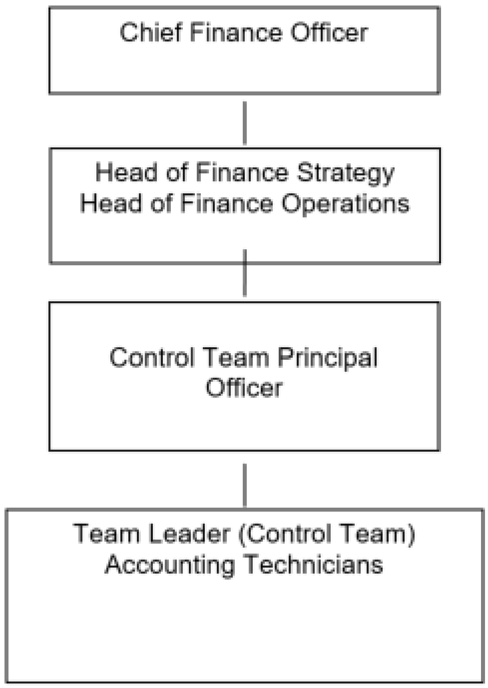
5.5. The structure for decision-making and delegation of responsibility for long-term borrowing is as follows:

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**



5.6. **STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST**

5.7. **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.

5.8. 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.

5.9. The Chief Finance Officer may delegate his power to borrow and invest to members of his staff. The Head of Finance Strategy, Principal Accountant, 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.

5.10. 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.

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

5.12. 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.

5.13. **Head of Finance Strategy & Head of Finance Operations**

5.14. The treasury management function is divided between the Finance Strategy team responsible for formulating the strategy and arranging loans and the Finance Operations Team responsible for transactional activities, The Head of Finance Strategy and Head of Finance Operations will jointly:

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.

5.15. **The Head of the Paid Service – the Chief Executive**

5.16. 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.

5.17. **The Monitoring Officer – the Chief Legal Officer**

5.18. 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.

5.19. **Internal Audit**

5.20. 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.

5.21. **ABSENCE COVER ARRANGEMENTS**

5.22. 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 4 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.

5.23. **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 £25m 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 above. A dealer should not assume they have unlimited responsibility by being aware of the responsibilities of others as specified from 5.6 onwards.

5.24. **LIST OF APPROVED BROKERS**

5.25. 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.

5.26. **POLICY ON BROKERS' SERVICES**

5.27. Deals will be based on the most advantageous terms available for each deal taking into account total interest and brokerage costs.

5.28. **POLICY ON RECORDING OF CONVERSATIONS**

5.29. It is not the Council's policy to record brokers conversations.

5.30. **DIRECT DEALING PRACTICES**

5.31. 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.

5.32. **SETTLEMENT TRANSMISSION PROCEDURES**

5.33. 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.

5.34. CHAPS/BACS instructions are entered by the dealer onto the internet Bankline system. Notification of incoming payments is received from the bank. Approved officers 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.

5.35. **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

5.36. There are three levels of users for Bankline; input, approval and two administrators. The Finance Operations 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.

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

5.38. 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.

5.39. 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.

5.40. **DOCUMENTATION REQUIREMENTS**

5.41. 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 arrangements

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**

6.3. 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.

6.4. 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.

6.5. 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

6.6. 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.

6.7. **THE ANNUAL INVESTMENT STRATEGY STATEMENT**

6.8. 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

6.9. **THE ANNUAL MINIMUM REVENUE PROVISION STATEMENT**

6.10. 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.

6.11. **POLICY ON PRUDENTIAL AND TREASURY INDICATORS**

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

6.13. 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.

6.14. **MID YEAR REVIEW**

6.15. 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.

6.16. **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY**

6.17. 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

6.18. **PUBLICATION OF TREASURY MANAGEMENT REPORTS**

6.19. 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. TMP7 – Budgeting, accounting and audit arrangements

7.1. **STATUTORY/REGULATORY REQUIREMENTS**

7.2. 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.

7.3. **BUDGETS / ACCOUNTS / PRUDENTIAL INDICATORS**

7.4. 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.

7.5. **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.

7.6. **Quarterly Budget Monitoring Report**

7.7. 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. TMP8 – Cash and cash flow management

8.1. **ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS**

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

8.3. 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.

8.4. **BANK STATEMENTS PROCEDURES**

8.5. 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.

8.6. 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.

8.7. **PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS**

8.8. 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.

8.9. **ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS**

8.10. 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.

8.11. **PROCEDURES FOR BANKING OF FUNDS**

8.12. 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.

8.13. **PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS**

8.14. 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. TMP9 – Money laundering

9.1. **PROCEEDS OF CRIME ACT 2002**

9.2. 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.

9.3. 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.

9.4. **The Terrorism Act 2000**

9.5. 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.

9.6. **The Money Laundering Regulations 2007**

9.7. 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.

9.8. **Local authorities**

9.9. 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.

9.10. **Procedures for Establishing Identity / Authenticity Of Lenders**

9.11. 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.

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

9.13. **Methodologies for Identifying Deposit Takers**

9.14. 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).

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

10. TMP10 – Training and qualifications

10.1. 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

10.2. 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.

10.3. 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.

10.4. **DETAILS OF APPROVED TRAINING COURSES**

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

10.6. **RECORDS OF TRAINING RECEIVED BY TREASURY STAFF**

10.7. The Head of Finance Strategy and the Head of Finance Operations will maintain records on all staff and the training they receive.

10.8. **APPROVED QUALIFICATIONS FOR TREASURY STAFF**

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

10.9. **QUALIFICATIONS OF TREASURY STAFF**

- Head of Finance Strategy – CMIIA/QIAL, MCMI, CPFA part-qualified.
- Principal Accountant – CIPFA & ICAEW
- Control Team Principal Officer – NVQ3 in Accounting

10.10. **RECORD OF SECONDMENT OF SENIOR MANAGEMENT**

10.11. 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.

10.12. **STATEMENT OF PROFESSIONAL PRACTICE (SOPP)**

10.13. 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.

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

10.15. **Member training records**

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

10.17. **Members charged with governance**

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

11. TMP11 – Use of external service providers

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

11.2. 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.

11.3. 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.

11.4. 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
- The credit ratings of that government support

11.5. **Banking services**

a. Name of supplier of service is the Natwest Bank. The branch address is:
Chatham Branch
148 High Street
Chatham
Kent ME4 4DJ

b. Contract commenced 01/10/05

c. Cost of service is variable depending on schedule of tariffs and volumes

d. Payments due monthly and quarterly

11.6. **Money-broking services**

11.7. The Council will use money brokers for temporary borrowing and investment and long-term borrowing. 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

11.8. **Consultants'/advisers' services**

11.9. **Treasury Consultancy Services**

11.10. 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.

11.11. The Head of Finance Strategy and the Principal Accountant will review the performance of consultants every year to check whether performance has met expectations.

a. Name of supplier of service is Link Asset Services. Their address is 6th Floor, 25 Gresham Street, London, EC2V 7NQ7
b. Regulatory status: investment adviser authorised by the FCA
c. Contract commenced 1/3/17 and runs for 2 years with an option to extend for a further year.

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

11.13. **Credit rating agency**

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

11.15. **PROCEDURES AND FREQUENCY FOR TENDERING SERVICES**

11.16. See TMP2

12. TMP12 – Corporate governance

12.1. **LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

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

12.3. 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.

12.4. The following documents are available for public inspection:

Treasury Management Strategy Statement including Prudential Indicators and Annual Investment Strategy

Treasury Management Practices

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.