

Changes to the original are shown in italics

Treasury Management Practice (TMP) 1

Treasury Risk Management

The responsible officer will:

- design, implement and monitor all arrangements for the identification, management and control of the treasury management risk,
- report at least annually on the adequacy/suitability thereof,
- report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council'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 the document.

1) Liquidity Risk Management

The council 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 which are necessary for the achievement of its business/service objectives.

2) Interest Rate Risk Management

While at all times having regard to the security of the principal it is investing, the Council will endeavour manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements or as amended in accordance with *TMP6 Reporting requirement and management information arrangements*.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and *revenues while maximising the security of its investments*. At the same time it will retain a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates or to react to adverse changes in the financial markets.

The above are subject at all time to the consideration and, if required, approval of any policy or budgetary implications.

3) Exchange Rate Risk Management

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

It will achieve this objective 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 exchange rates. The above is subjected at all times to the consideration and, if required, approval of any policy or budgetary implications.”

4) Inflation Risk Management

The effects of varying level of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the organisation as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve this objective by the prudent use of its approved financing and investment instruments, methods and techniques. This will enable the creation of stability and certainty of costs and revenues, while at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of inflation.

The above is subject at all times to the consideration and, if required, approval of any policy of budgetary implications.

5) Credit and Counterparty Risk Management

The Council regards a prime 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 listed in the schedule to that 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.

6) Refinancing Risk Management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, with a view to obtaining appropriate offer terms for renewal or refinancing, if required. Appropriate offer terms for renewal or refinancing will be competitive and as favourable to the organisation as can reasonable be achieved in the light of the market conditions prevailing at the time.

The maturity profile of the monies so raised, and relationships with counterparties in these transactions, are managed in such manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of this goal.

7) Legal and Regulatory Risk Management

The Council 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 *paragraph 5 above*, 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.

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

8) Fraud, Error and Corruption, and Contingency Management

The Council will ensure that it has identified the circumstances, which may expose it to 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.

9) Market Risk Management

The Council 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.

Schedule to TMP 1 - TMP1 RISK MANAGEMENT

1.1 LIQUIDITY

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

The Council will keep at least £5,000,000 available at 24 hours notice.

There is an agreed overdraft facility of £1,000,000 with the Co-operative bank.

1.2 INTEREST RATE

1.2.1 Minimum/maximum proportions of variable rate debt/interest

The maximum proportion of interest on borrowing, which is subject to variable rate interest

The limit has been set in line with the Council's operational boundary for external borrowing (excluding long term liabilities at (h) above.

<i>Upper limits on variable interest rate exposures</i>	
	<i>Upper Limit £000</i>
<i>2008-09</i>	<i>38,000</i>
<i>2009-10</i>	<i>38,000</i>
<i>2010-11</i>	<i>38,000</i>

1.2.2 Minimum/maximum proportions of fixed rate debt/interest

Since the Council has an excess of temporary investments over debt, the calculation should result in a negative figure. The upper limit has therefore been set at zero – i.e. a positive result representing an excess of fixed rate debts over temporary investment would exceed the limit.

1.2.3 Policies concerning the use of financial derivatives and other instruments for interest rate management.

- a. forward dealing – the Council will enter into forward deals
- b. callable deposits (fixed investments for up to 5 years borrower's option) £1,000,000
- c. LOBOs (borrowing under lender's option/borrower's option) are allowable.

1.3 CREDIT AND COUNTERPARTY POLICIES

1.3.1 Criteria to be used for creating / managing approved counterparty lists / limits

- a. The Chief Finance Officer will formulate a suitable criteria for assessing and monitoring the credit risk of investment counterparty and shall construct a lending list comprising time, type, sector and specific counterparty limits.
- b. Treasury management staff will add or delete counterparties to/form the approved counterparty list in line with the policy on criteria for selection of counterparties. The complete list of approved counterparties will be included in the annual report.
- c. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- d. Credit ratings will be used as supplied by Sector Treasury Services.
- e. Professional advice will be taken from Sector Treasury Services on which institutions present the minimum level of risk to the authority.
- f. *The counterparty list may be further restricted with the approval of the Chief Finance Officer in consultation with the Chief Executive to limit the exposure of the authority to risk in times of economic or market uncertainty.*
- g. The maximum period for specified investments will be 364 days.
- h. *The maximum period for non-specified investments will be 5 years. (The only non specified investments used are investment over 364 days).*
- i. The maximum value for any single investment transaction will be £5m.
- j. The maximum level of investment with any one group of counterparties will be £10m.

1.3.2 Approved methodology for changing limits and adding / removing counterparties

Credit ratings for individual counterparties can change at any time. The Chief Finance Officer is responsible for applying the stated credit rating criteria outlined in 1.3.1 for selecting approved counterparties. He/She will add or delete counterparties as appropriate to/from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers.

The Chief Finance Officer will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers in accordance with the criteria in 1.3.1.

The Chief Financial Officer will adjust maximum lending limits should it become necessary to enable the effective management of risk in

relation to investments. Any adjustments in maximum lending limits under this paragraph will be reported to Cabinet subsequently.

1.3.3 Restrictions in Place – Banking Sector Crisis October 2008

As at October 2008 the Sector counterparty list has been restricted to those authorities that have in place a guarantee from either the UK or Republic of Ireland Government.

The Chief Financial Officer will amend this restriction as appropriate in line with professional and Government advice.

The Chief Financial Officer in consultation with the Chief Executive will lift when, in their judgement, the economy and relevant markets have stabilised and are expected to remain stable for a period of at least 12 months.

Any adjustments to restrictions under this paragraph will be reported to Cabinet at the next available Cabinet meeting for endorsement.

1.3.4 Restricted individual listings of counterparties and counterparty limits as at 22 October 2008

Group	Institution	Limit £m	Limit Days
United Kingdom			
<i>Santander</i>	<i>Abbey</i>	12	364
<i>Lloyds TSB</i>	<i>Lloyds TSB</i>	12	364
<i>Barclays Bank Plc</i>	<i>Barclays</i>	12	364
<i>HSBC Holdings Plc</i>	<i>HSBC</i>	12	364
<i>Royal Bank of Scotland Group Plc</i>	<i>Royal Bank of Scotland</i>	12	364
<i>Standard Chartered plc</i>	<i>Standard Chartered</i>	12	364
<i>Nationwide Building Society</i>	<i>Nationwide Building Society</i>	12	364
<i>Northern Rock*</i>	<i>Northern Rock</i>	12	90
Republic of Ireland			
<i>Allied Irish Bank Plc</i>	<i>Allied Irish Bank</i>	7.5	90
<i>Bank of Ireland</i>	<i>Bank of Ireland</i>	7.5	90
<i>Anglo Irish Bank Corporation Plc</i>	<i>Anglo Irish Bank</i>	7.5	90
<i>Irish Life & Permanent Plc</i>	<i>Irish Life & Permanent</i>	7.5	90
<i>EBS Building Society</i>	<i>Education Building Society</i>	7.5	90

**Acting under Government Ownership*

1.3.5 Details of credit rating agencies' services or other services which provide current credit ratings and updates on changes

The Council uses credit ratings supplied through Sector from the credit rating agencies Fitch IBCA and Moodys.

1.4 MARKET VALUE OF INVESTMENTS

1.4.1 *The Council minimises its exposure to investments whose capital value may fluctuate (gilts, CDS etc.).*