

**TREASURY MANAGEMENT
POLICY STATEMENT**

Part 2: Schedules

January 2005

TREASURY MANAGEMENT PRACTICES – SCHEDULES

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

TMP 1 Treasury risk management

TMP 2 Best value and performance measurement

TMP 3 Decision-making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Staff training and qualifications

TMP 11 Use of external service providers

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.

1.1.2 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.	Minimum 0%	Maximum 50%
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1.2.2. Minimum/maximum proportions of fixed rate debt/interest

Minimum 50%	Maximum 100%
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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 at 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

1. The Borough Treasurer will formulate a suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
2. Treasury management staff will add or delete counterparties to/from 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.
3. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
4. Credit ratings will be used as supplied from Fitch IBCA.
5. In addition, the Council will use building societies which do not have credit ratings.
6. The minimum level of credit rating for an approved counterparty will be as follows (ratings per Fitch IBCA) :-

Short term	FI
Long term	AA -
Individual	C
Support	5
Max. Individual limit **	£7 m

7. The maximum period for specified investments will be 364 days.
8. The maximum period for non-specified investments will be 5 years.
9. The maximum value for any one investment transaction will be £7m.
10. The maximum level of investment with any one group of counterparties will be £7m.

1.3.2 APPROVED METHODOLOGY FOR CHANGING LIMITS AND ADDING / REMOVING COUNTERPARTIES

Credit ratings for individual counterparties can change at any time. The Borough Treasurer is responsible for applying the stated credit rating criteria in 1.3.1. for selecting approved counterparties, and 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 Borough Treasurer 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.

1.3.3 FULL INDIVIDUAL LISTINGS OF COUNTERPARTIES AND COUNTERPARTY LIMITS

See Appendix.

1.3.4 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 following credit rating agencies :-

Fitch IBCA

1.4 MARKET VALUE OF INVESTMENTS

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

The Council itself does not use these instruments and the limit of its exposure is the amount managed by its fund managers who use the instruments.

TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENTS

2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

The following are used by the Council in its evaluation: the impact on revenue, interest rate risk, possible changes in Government regulations, the impact on the Housing Revenue Account and the repayment profile.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT, e.g.:

2.2.1 Frequency and processes for tendering

2.2.2 Banking services

Banking services will be retendered or renegotiated every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

The Council will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them.

An approved list of brokers will be maintained.

2.2.4 Consultants'/advisers' services

The Council uses Sector as its consultants.

2.2.4 External Managers

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

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES

2.3.1 BENCHMARKS AND CALCULATION METHODOLOGY:

Debt management

Average rate on all external debt

2.3.2 Investment.

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

- a.* in house investments
3 month LIBID

- b.* cash fund manager(s)
3 month LIBID

TMP 3 DECISION-MAKING AND ANALYSIS

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

3.1.1 Records to be kept

Minutes of weekly and other Treasury Management meetings.

3.1.2 Processes to be pursued

Weekly Treasury Management meetings, reports from advisors, conversations with brokers, information from the internet, the Financial Times and external fund managers.

3.1.3 Issues to be addressed.

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

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

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

- a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- b) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- d) Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.

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.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

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

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

In accordance with The Local Organisations (Capital Finance) (Approved Investments) Regulations 1990 and subsequent amendments, the instruments approved for investment and commonly used by local organisations are:

- Gilts;
- Treasury Bills;
- Deposits and bonds with banks building societies or local organisations (and certain other bodies) for up to 5 years
- Certificates of deposits with banks or building societies for up to 364 days
- Euro-Sterling issues by certain Supra-national bodies listed on the London and Dublin Stock Exchanges.

4.3 APPROVED TECHNIQUES

- Forward dealing up to 364 days
- Callable deposits

4.4 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

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

PWLB

EIB

Market (long-term)

Market (temporary)

Market (LOBOs)

Stock issues

Local temporary

Overdraft

Negotiable Bonds

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Borough Treasurer has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 LIMITS

INVESTMENTS

Gilts or Treasury Bills

Deposits

Certificates of deposits

Euro-Sterling.

Forward dealing

Callable deposits

LIMIT

75% of Investec Portfolio

No limits

No limits (Fund Managers only)

No limits (Fund Managers only)

50% of Portfolio

£1m

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

INDEX OF SCHEDULES

- 5.1 Limits to responsibilities/discretion at committee/executive levels**
- 5.2 Principles and practices concerning segregation of duties**
- 5.3 Treasury management organisation chart**
- 5.4 Statement of duties/responsibilities of each treasury post**
- 5.5 Absence cover arrangements**
- 5.6 List of approved brokers**
- 5.7 Policy on taping of conversations**
- 5.8 Direct dealing practices**

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT COMMITTEE/EXECUTIVE LEVELS

Council/The Executive/Scrutiny

- a) Receiving and reviewing reports on treasury management policies, practices and activities.

The Executive

- a) Approval of/amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices
- b) Budget consideration and approval
- c) Approval of the decision of responsibilities
- d) Receiving and reviewing external audit reports and acting on recommendations
- e) Approving the selection of external service providers and agreeing terms of appointment.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

Treasury management work is carried out by “The Front Office”. Checks on activity daily are carried out by “The Back Office”

5.3 TREASURY MANAGEMENT ORGANISATION CHART

The Front Office

The Borough Treasurer

Head of Financial Strategy

Accountant (Corporate)

Group Accountant – Technical

The Back Office

Two Technical Accountants

5.4 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

5.4.1. Chief Financial Officer

1. The Borough Treasurer will:

- a) Recommend clauses, treasury management policy / practices for approval, reviewing the same regular, and monitoring compliance
- b) Submit regular treasury management policy reports
- c) Submit budgets and budget variations
- d) Receive and review management information reports
- e) Review the performance of the treasury management function and promote best value reviews
- f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- g) Ensure the adequacy of internal audit, and liaising with external audit
- h) Recommend the appointment of external service providers.

2. The Borough Treasurer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

3. The Borough Treasurer may delegate his power to borrow and invest to members of his staff. The Borough Treasurer, the Head of Financial Strategy, the Chief Accountant or the Treasury Manager or Deputy must conduct all dealing transactions, or staff authorised by the Chief Financial Officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two of the named officers above.

4. The Borough Treasurer and the Monitoring Officer will ensure that the Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

5. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Borough Treasurer to be satisfied, by reference to the Monitoring Officer, 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

6. It is also the responsibility of the Borough Treasurer to ensure that the Council complies with the requirements of The Non Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

5.4.2. Treasury Manager

The responsibilities of this post will be: -

- a) Execution of transactions
- b) Adherence to agreed policies and practices on a day-to-day basis
- c) Maintaining relationships with third parties and external service providers
- d) Supervising treasury management staff
- e) Monitoring performance on a day-to-day basis
- f) Submitting management information reports to the responsible officer
- g) Identifying and recommending opportunities for improved practices.

5.4.3. Head of the paid service

The responsibilities of this post will be: -

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Borough Treasurer reports regularly to the responsible committee/the Council on treasury policy, activity and performance.

5.4.4. Monitoring Officer

The responsibilities of this post will be: -

- a) Ensuring compliance by the Borough Treasurer 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 Borough Treasurer when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and procedures
- b) Reviewing division of duties and operational practice
- c) Assessing value for money from treasury activities
- d) Undertaking probity audit of treasury function.

5.5 ABSENCE COVER ARRANGEMENTS

Treasury Manager is covered by Deputy and Group Accountant (Technical). Back Office has three members any one of which carries out checks.

5.6 LIST OF APPROVED BROKERS

Tradition, Garban and Prebon.

5.7 POLICY ON TAPING OF CONVERSATIONS

All Treasury Management calls are tape recorded.

5.8 DIRECT DEALING PRACTICES

The Council does not deal directly with counterparties.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT

1. The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be submitted to the Executive for approval before the commencement of each financial year.
2. The formulation of the annual Treasury Management Strategy 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.
3. The Treasury Management Strategy is concerned with the following elements:
 - the prospects for interest rates;
 - the limits placed by this organisation on treasury activities
 - the expected borrowing strategy;
 - the expected investment strategy (including the appointment of fund managers);
 - the current treasury position;
 - the expectations for debt rescheduling;
 - any extraordinary treasury issue (such as the implications of a LSVT or housing company set up).
4. The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.2 POLICY ON INTEREST RATE EXPOSURE

1. As required by the Local Government Act 2003, the Council must approve before the beginning of each financial year the following treasury limits:

- | | |
|-----------------------------------------------------------------------------------------------------|------------------|
| • the operational borrowing limit | £50,000,000 |
| • the authorized limit | £70,000,000 |
| • the amount of the overall borrowing limit which may be outstanding by way of short term borrowing | 50% of the above |

2. The Borough Treasurer is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Borough Treasurer shall submit the changes for approval to the Executive before submission to the full Council for approval.

6.3 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY

An annual report will be presented to the Executive at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a. a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- b. transactions executed and their revenue (current) effects
- c. report on risk implications of decisions taken and transactions executed
- d. monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- e. monitoring of compliance with powers delegated to officers
- f. degree of compliance with the original strategy and explanation of deviations
- g. explanation of future impact of decisions taken on the organisation
- h. measurements of performance
- i. report on compliance with CIPFA Code recommendations

6.4 MANAGEMENT INFORMATION REPORTS

Management information reports will be prepared every Quarter by the Treasury Manager and will be presented to the Executive, the Borough Treasurer and the Head of Financial Strategy.

These reports will contain the following information: -

Treasury Management strategy, transactions carried out (borrowing and investment), outstanding debt and investments, changes to the approved investment list and rescheduling of debt.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

Submission of annual policy statement and treasury management strategy statement. Outturn report.

7.2 ACCOUNTING PRACTICES AND STANDARDS

The Council reports investment valuations at book or market price whichever is the lesser.

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

Projected cashflows are presented weekly at Treasury Management meetings.

8.2 CONTENT AND FREQUENCY OF CASH FLOW BUDGETS

Annual projection at start of the year, daily updates of model.

8.3 LISTING OF SOURCES OF INFORMATION

All departments of the Council and the Co-operative Bank.

TMP 9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS

The Council does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on www.fsa.gov.uk).

The Council also takes deposits from counterparties forwarded from our brokers and from local organisations known and supported by the Council.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

It is intended that all treasury management staff be adequately trained for their activities. This is an ongoing arrangement.

10.6 STATEMENT OF PROFESSIONAL PRACTICE (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

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

11.1.1 Banking services

- a) Name of supplier of service – The Co-operative Bank.
- b) Contract will commence April 2004 and runs for 3 years until March 2007.

11.1.2 Money-broking services

Money broking services are provided by Garban, Prebon Yamane and Tradition UK Limited.

11.1.3 Cash/fund management services

- a) Name of supplier of service – Investec and Newton
- b) Contracts are on a rolling basis and can be terminated with no notice.
- c) Cost of service - £45,000 for both managers
- d) Payments due quarterly in arrears

11.1.4 Consultants'/advisers' services

- c) Name of supplier of service – Sector Treasury Services
- d) Contract commenced March 2000 and runs for 3 years until March 2003 extended for 2 years until March 2005.
- e) Cost of service - £12,000
- f) Payments due 6 monthly in arrears