

REPORT TO: FINANCE COMMITTEE - 11 MARCH 2002
REPORT ON: TREASURY POLICY STATEMENT
REPORT BY: DIRECTOR OF FINANCE
REPORT NO: 141-2002

1 PURPOSE OF REPORT

This report substantially revises the Director of Finance's Treasury Policy Statement which is intended to govern all borrowing and lending transactions carried out by the Council.

2 RECOMMENDATION

Members are recommended to approve the policies and procedures laid out in the attached 'Treasury Policy Statement'.

3 FINANCIAL IMPLICATIONS

None.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 INTRODUCTION

The Finance Committee approved the current Treasury Policy Statement on 13 March 2000 (Report No 516-2000). This is subject to review every three years or earlier in the event of a major policy change.

The 'Treasury Policy Statement' is being updated to reflect two policy changes. Firstly, CIPFA have updated their Code of Practice on Treasury Management with effect from 1 April 2002 and we would wish to be able to comply with this. Secondly, integration in the banking sector eg Nat West/Royal Bank of Scotland and Halifax/Bank of Scotland has restricted the number of bodies to which the Council can lend. The list at Appendix A of the statement has therefore been updated to ensure a range of lending opportunities are available.

7 TREASURY POLICY STATEMENT

This document sets out the policies and objectives of the Council's Treasury Management activities and the practices which will be used to achieve these.

It now contains:-

- Treasury Management Policy Statement
- Treasury Management Practices Main Principles in 12 key areas.

DAVID K DORWARD
DIRECTOR OF FINANCE

BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any confidential or exempt information) were relied on to any material extent in preparing the above Report.

SF/AK
14-Feb-02
Reports/Tr.Pol.Statement

DUNDEE CITY COUNCIL

TREASURY POLICY STATEMENT

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INTRODUCTION

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 1996 and has been substantially revised in 2001 in order to reflect developments since then. The Institute believes that this major revision is timely for a number of reasons. These include:-

- the increasing size and complexity of the public services' treasury management activities and the demands placed on them, particularly with regard to effective risk management, by performance measurement and the pursuit of best value
- the growth of cross-sectoral partnerships
- the volatility and sophistication of the financial money markets

In addition, various versions of the Code have been issued over time for different sectors in the public service field and it was felt that these should be consolidated into one document encompassing common principles but allowing for variations in their working as appropriate to each sector.

The Code therefore requires that a report be submitted to the Council, setting out four clauses which should be formally passed in order to approve adoption of the new version of the Code. These clauses are detailed below.

The Council delegates responsibility for review of the policy and monitors the performance of the treasury management function in accordance with the policy to the Finance Committee.

The Finance Committee will receive each year the following reports:-

- Annual strategy and plan in advance of the year
- Annual report after its close

The new Code also requires each organisation to draw up a much truncated and more strategic treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. This is shown in Section 1.

The 1996 Code required chief finance officers to draw up a treasury systems document to cover how treasury management activities are actually implemented. The new Code has laid out a framework of treasury management practices (TMPs) to replace this and to incorporate parts of the previous approach to the treasury management policy statement. These are detailed in the rest of this document.

In accordance with CIPFA recommendations, the following four clauses are agreed:-

- 1 Dundee City Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) 2001 as described in section 4 of that Code.
- 2 Accordingly, this Council will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement (TMPS), stating the policies and objectives of its treasury management activities.
 - suitable treasury management practices (TMP), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 3 The Finance Committee will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs.

- 4 Dundee City Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Finance Committee and for the execution and administration of treasury management decisions to the Director of Finance who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

I TREASURY MANAGEMENT POLICY STATEMENT

Dundee City Council defines the policies and objectives of its treasury management activities as follows:-

1 Dundee City Council defines its treasury management activities as:

"The management of the authority's 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 Dundee City Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 3 Dundee City Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.

II TREASURY MANAGEMENT PRACTICES - MAIN PRINCIPLES

Dundee City Council will follow the main principles as detailed for the treasury management practices listed below.

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

TMP 12 Corporate Governance

The Director of Finance will maintain, separate from this document, schedules specifying the systems and routines to be employed and the records to be maintained to ensure adherence to these principles.

TMP1 TREASURY RISK MANAGEMENT

The Director of Finance 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 separate working schedules maintained by the Director of Finance.

1 Liquidity Risk Management

Dundee City 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 which are necessary for the achievement of its business/service objectives.

2 Interest Rate Risk Management

Dundee City Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, in accordance with the amounts provided in its budgetary arrangements 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, 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. The above are subject at all times to the consideration of any policy or budgetary implications.

3 Exchange Rate Risk Management

Dundee City 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 subject at all times to the consideration of any policy or budgetary implications.

4 Inflation Risk Management

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by Dundee City Council 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, 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 inflation. The above is subject at all times to the consideration of any policy or budgetary implications.

5 Credit and Counterparty Risk Management

Dundee City 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*. 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. The current list of approved counterparties is shown in Appendix A.

6 Refinancing Risk Management

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

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

7 Legal and Regulatory Risk Management

Dundee City 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 *TMP1.5 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 affect with the organisation, particularly with regard to duty of care and fees charged.

The 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.

8 Fraud, Error and Corruption and Contingency Management

Dundee City Council 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.

9 Market Risk Management

Dundee City 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.

TMP2 BEST VALUE AND PERFORMANCE MEASUREMENT

Dundee City Council is committed to the pursuit of best value in its treasury management activities and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in separate working schedules maintained by the Director of Finance.

TIMP3 DECISION-MAKING AND ANALYSIS

Dundee City Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processed and practices to be pursued in reaching decisions are detailed in separate working schedules maintained by the Director of Finance.

TIMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Dundee City Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in separate working schedules maintained by the Director of Finance and within the limits and parameters defined in TMP1, *Risk Management*.

TIMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

Dundee City Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

If and when Dundee City Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements* and the implications properly considered and evaluated.

The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangement for absence cover. The present arrangements are detailed in separate working schedules maintained by the Director of Finance.

The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in separate working schedules maintained by the Director of Finance.

The delegation to the Director of Finance in respect of treasury management are set out in the Introduction to the Treasury Policy Statement. The Director of Finance will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on treasury management.

TIMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Dundee City Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the Finance Committee will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Director of Finance will prepare, and Dundee City Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk Management, TMP2 Best Value and Performance Measurement and TMP4 Approved Instruments, Methods and Techniques. The Director of Finance will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

Dundee City Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory regulatory requirements in force.

Dundee City Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of Dundee City Council will be under the control of the Director of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) Liquidity Risk Management.

TMP9 MONEY LAUNDERING

Dundee City Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP10 STAFF TRAINING AND QUALIFICATIONS

Dundee City Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance will recommend and implement the necessary arrangements.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

Dundee City Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance.

TMP12 CORPORATE GOVERNANCE

Dundee City Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This organisation has adopted and has implemented the key recommendations of the CIPFA Code. This, together with the other arrangements detailed in separate working schedules maintained by the Director of Finance, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

APPROVED COUNTERPARTIES FOR LENDING TRANSACTIONS

<u>Approved Lending Bodies</u>	<u>Short Term Credit Rating</u>	<u>Maximum Deposits £m</u>
<u>Banks</u>		
Abbey National plc	F1+	10
HBOS (formerly Bank of Scotland and Halifax)	F1+	10
Barclays Bank plc	F1+	10
* Clydesdale Bank plc (National Australia Bank)	F1+	10
Lloyds TSB Bank plc	F1+	10
HSBC Bank plc	F1+	10
Royal Bank of Scotland plc (inc National Westminster)	F1+	10
Alliance and Leicester plc	F1+	10
Bradford & Bingley plc	F1	5
<u>Building Societies</u>		
Nationwide Building Society	F1+	10
Britannia Building Society	F1	5
Coventry Building Society	F1	5
Skipton Building Society	F1	5
Principality Building Society	F1	5
Yorkshire Building Society	F1	5
<u>Other</u>		
Scottish Local Authorities	N/A	5
English and Welsh Local Authorities	N/A	5

* This bank is a wholly owned subsidiary of the bank in brackets and the rating quoted refers to the parent bank.

NB Credit ratings indicate the capacity for timely repayments as follows:

- F1+ strongest
- F1 strong
- F2 satisfactory
- F3 adequate
- B uncertain
- C highly uncertain
- D actual or imminent default