

Treasury Management Policy Statement 2006/07

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1 INTRODUCTION

1.1 Background

This authority has had a formally adopted Treasury Management Policy Statement for a number of years, which has complied with the requirements of CIPFA's "Treasury Management in Local Authorities: Code of Practice 1996".

This code has now been fully revised and the purpose of this document is to outline those procedures that cover the whole range of treasury management activities, and has been prepared within the revised guidelines of the "Treasury Management in the Public Services Code of Practice" published by CIPFA. As such, the authority will adopt the key recommendations of the code.

Accordingly, the authority will create and maintain, as the cornerstones for effective treasury management:

- ◆ A treasury management policy statement, stating the policies and objectives of its treasury management activities
- ◆ Suitable treasury management practices (TMPs), setting out the manner in which the authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.2 Treasury Management Reporting

The Council (Resources Executive 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 the TMPs.

The Annual Strategy required by this code will also incorporate the requirements of the "Guidance on Local Government Investments" issued by the ODPM. This document requires that a Local Authority draw up an Annual Investment Strategy for the following financial year.

The Annual Investment Strategy will be produced as Appendix A to this document, and updated and varied from time to time, as appropriate.

1.3 Delegated Responsibility

This Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Resources Executive Committee, and for the execution and administration of treasury management decisions to the Financial Services Manager, who will act in accordance with the Council's policy statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management*.

2 TREASURY MANAGEMENT POLICY STATEMENT

Treasury Management is concerned with the management of the organisation's cash flows, its banking, money markets and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

This 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 implications for the organisation.

The 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.

3 TREASURY MANAGEMENT PRACTICES

3.1 Introduction

The Code of Practice recommends that an authority adopts a number of Treasury Management Practices (TMP's) to reflect its treasury management powers and the scope of its treasury management activities. The TMPs relevant to Kennet District Council are outlined in the rest of this section and are supported by the schedules in Section 4, which explain the present arrangements.

The TMPs:-

3.2 Risk Management

The Financial Services Manager 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 authority's objectives in this respect. This will be done in accordance with the procedures set out in *Reporting Requirements and Management Information Arrangements*. In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in the schedule to this document.

3.2.1 *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 levels of funds available to it which are necessary for the achievement of its business/service objectives.

3.2.2 *Interest Rate, Exchange Rate and Inflation Risk Management*

The Council 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.

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

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 the organisation as an integral part of its strategy for managing its overall exposure to inflation.

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

3.2.3 *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 investments activities to the instruments, methods and techniques referred to in *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.

3.2.4 *Refinancing Risk Management*

The 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 authority as can be reasonably achieved in the light of market conditions prevailing at the time.

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It will 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.

3.2.5 *Legal and Regulatory Risk*

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 *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 authority, particularly with regard to duty of care and fees charged.

The Council 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.

3.2.6 *Fraud, Error and Corruption, and Contingency Management*

The Council will ensure that it has identified the circumstances that 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.

3.2.7 *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

3.3 *Best Value and Performance Measurement*

The 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.

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Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the authority's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

3.4 Decision Making and Analysis

The 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 processes and practices to be pursued in reaching decisions are detailed in the schedule.

3.5 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in *Risk Management*.

3.6 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, 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 principle 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 this authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Financial Services Manager will ensure that the reasons are properly reported in accordance with *Reporting Requirements and Management Information Arrangements*, and the implications properly considered and evaluated.

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The Financial Services Manager will ensure that there are clear written statements of the responsibilities of each post engaged in treasury management, and the arrangements for absence cover. The present arrangements are detailed in the schedule to this document.

The Financial Services Manager will ensure that 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 the schedule to this document.

The delegations of the Financial Services Manager in respect of treasury management are set out in the schedule to this document. The Financial Services Manager will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs, constitution, and, if a CIPFA member, the "*Standard of Professional Practice on Treasury Management.*"

3.7 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered in the implementation of its treasury management policies; on the effects of decisions taken and 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 Resources Executive 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 affects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.

3.8 Budgeting, Accounting and Audit Arrangements

The Financial Services Manager will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters 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 *Risk Management, Best Value and Performance Measurement and Approved Instruments, Methods and Techniques*. The Financial Services Manager will exercise effective controls over this budget, and will report upon and recommend any changes in accordance with *Reporting Requirements and Management Information Requirements*.

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The 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 and regulatory requirements in force for the time being.

The 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.

3.9 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Financial Services Manager, 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 Financial Services will ensure that these are adequate for the purposes of monitoring compliance with *Liquidity Risk Management*.

3.10 Money Laundering

The 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.

3.11 Staff Training and Qualifications

The 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 Financial Services Manager will recommend and implement the necessary arrangements.

3.12 Use of External Service Providers

The 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 that will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review. It will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal

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tender and re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements rests with the Financial Services Manager.

3.13 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its business 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 Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Financial Services Manager will monitor and, if necessary, report upon the effectiveness of these arrangements.

4 TREASURY MANAGEMENT SCHEDULES

4.1 Introduction

The schedules outlined in this section present the current arrangements in place at Kennet District Council, in respect of its treasury management function. They are provided in support of the treasury management practices (TMPs) outlined in Section 3.

TMP 1 Risk Management

Liquidity Risk

Key schedules/points of reference:

- i) Schedule of Known Payments and Receipts 2006/07
- compiled at the beginning of the year and updated through the year for any changes to the cashflow, including investments fixed to dates where known payment must be made.
- ii) Weekly Cashflow Forecast
- completed on a daily basis with bank balance figures taken from Hexagon and known payments and receipts for that day. Action is then taken to either invest or recall funds depending on whether there is a surplus or a shortfall of funds.
- iii) Overdraft Arrangement
- the Council has an overdraft limit of £1,000,000 at an interest rate of 1% above base rate.

Interest Rate, Exchange Rate and Inflation Risk Management

Key schedules/points of reference:

- i) Budgeted investment income and reserves 2006/07
- ii) Bank charges budget (incl. Interest) 2006/07
- iii) Interest Rate Exposures calculated for compliance with the Prudential Indicators 2006/07

Credit and Counterparty Risk Management

Key schedules/points of reference:

- i) Approved lending list 2006/07
- the lending list is agreed annually and lists financial institutions with which Kennet can invest funds. The institutions included on the list are split into different ranges of maximum investment, in accordance with their credit ratings.

Refinancing Risk Management

There are no specific schedules for this item.

Legal and Regulatory Risk

There are no specific schedules for this item.

Fraud, Error and Corruption and Contingency Management

Key schedules/points of reference:

- i) Fidelity Guarantee Insurance
 - *Kennet has Fidelity Guarantee Insurance which provides cover for losses as a result of fraud or dishonesty by an employee. The cover provided is £1,000,000 for any employee and £5,500,000 for the following nine, specified employees:*
 - *Chief Executive*
 - *Director of Resources*
 - *Financial Services Manager*
 - *Chief Accountant and Auditor*
 - *Principal Accountant – Resources & Planning*
 - *Principal Accountant – Community Development*
 - *Principal Technical Accountant*
 - *Technical Accountancy Assistant*
 - *Senior Accountant – Community Development*
 - *Accordingly, transaction limits on the Hexagon system (the CHAPS line) are set to £5,500,000 for each of the above employees and £1,000,000 for any other users.*

Market Risk Management

Key schedules/points of reference:

- i) Fund Managers' investment limits.
TMP4 and the Annual Investment Strategy outline the guidelines that the external fund managers must operate to.

TMP 2 Best Value and Performance Measurement***Internally Invested Funds***

A spreadsheet is kept which details the daily outstanding investments and the Local Authority Seven-Day Rate.

The target for returns on internal investments is therefore the average daily interest receivable, using the average Local Authority Seven-Day rate for a period.

Externally Invested Funds**INVESCO**

INVESCO's target is the Local Authority Seven-Day Rate plus 0.5%

e.g. LA 7 day rate = 3.625%
 INVESCO target = $3.625 + 0.5 = 4.125\%$

TRADITION UK

TRADITION UK's target is the Local Authority Seven-Day Rate multiplied by 1.1 (i.e. LA 7 Day Rate plus 10%).

e.g. LA 7 day rate = 3.625%
 TRADITION UK target = $3.625 \times 1.1 = 3.9875\%$

Both internally and externally invested funds are monitored on a quarterly basis in a report to the Director of Resources, from the Principal Technical Accountant.

TMP 3 Decision-making and Analysis

On a daily basis a cashflow forecast is completed, taking bank balance figures from Hexagon and any known payments and receipts for each day.

At the end of each week, the cashflow forecast is printed as a record of the cashflow and investment decisions taken in that week. Once printed, the cashflow forecast spreadsheet is overwritten with the following week's entries.

As a general rule, the balance at the end of the day should be as near to £0.00 as possible, in order to maximise investment interest, whilst not incurring unnecessary costs due to being overdrawn.

However, it must be borne in mind that to invest smaller sums will cost the Council more in CHAPS fees than it would receive in investment interest.

It has therefore been decided that investments will only be made where the day-end balance is £200,000 or greater. Amounts of less than £200,000 can be added to the Council's Money Market Fund. The Fund is maintained with HSBC and the balance transfers are arranged automatically by the bank and do not incur CHAPS transfer fees.

Depending on the type of investments outstanding and the arrangement in place with the relevant financial institution, it may be possible to recall funds of less than £200,000, if necessary. For example, the Bank of Ireland will allow amounts as low as £50,000 to be recalled from the 'overnight' deposits.

TMP 4 Approved Instruments, Methods & Techniques

The TMP should be read in conjunction with the Annual Investment Strategy, a copy of which is attached as Appendix A.

Internally Managed Funds:

Specified Investments

The Council may use the following types of investment for internally managed investments:

- Fixed Term Deposits
- On Call Deposits
- Money Market Funds

Definition of Approved Organisations for Investment

The Council may lend funds to the following organisations:

- Other Local Authorities;
- Major clearing banks incorporated in the UK and their subsidiaries;
- UK Building Societies with an F1/A Rating;
- Foreign Banks with an F1+ Rating

With the exception of Other Local Authorities, the Council may invest with these bodies to the extent that they have “high” credit ratings¹, which have been defined by the Council in the following section.

Internal Investment Policy

The following limits apply on the amount of money that can be invested with any one of the institutions mentioned in 2.4 above at any one time, by the internal team:

Highest Quality Financial Institutions	£5M
Other Local Authorities	£1M
100% Owned Subsidiaries of Clearing Banks	£1M
F1/AA Rated building societies	£1M
F1/A Rated building societies	£0.5M
F1/A Rated merchant or secondary banks	£0.5M
F2/A Rated merchant or secondary banks	£0.25M

The highest quality financial institutions must have a minimum short-term Fitch IBCA rating of F1+ and long-term rating of AA-. This criteria is used in conjunction

¹ The “Guidance on Local Government Investments” issued by the ODPM require an authority to define what they consider to be a “high” credit rating.

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with the lending lists maintained by the fund managers and only institutions on these lists will be used.

Non-specified Investments

The Council may use the following types of non specified investment for internally managed investments:

Fixed Term Deposits with UK Building Societies

The Annual Investment Strategy provides details of the procedures the Council will follow in deciding which investments may be used.

Internal Investment Policy

The following limits apply on the amount of money that can be invested with any one of the institutions mentioned above at any one time, by the internal team:

UK Building Societies with assets exceeding £1 billion £1M

The Resources Executive Committee shall review the above lists of institutions and limits attached thereto at least annually as part of the overall strategy review. Authority is delegated to the Director of Resources to vary the list and the limits applying as circumstances dictate, such variations to be reported to the Resources Executive Committee at the earliest opportunity.

Externally Managed Funds:

Specified Investments

The Council allows its fund managers to use any of the following types of specified investment:

Fixed Term Deposits with Highly Rated Banks and Building Societies
 Certificates of Deposit
 Gilt Edged Securities (UK Government with maturity of no more than 1 year)
 Highly Rated Supranational Bonds (with maturity of no more than 1 year)
 Highly Rated Ex UK Sovereign Issues (with maturity of no more than 1 year)
 AIM Money Market Fund (Invesco Asset Management Only)

Non-specified Investments

The Council allows its fund managers to use the following type(s) of non-specified investments:

Fixed Term Deposits with UK Building Societies (with assets exceeding £1billion)
 Gilt Edged Securities (UK Government with maturity greater than 1 year)

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Highly Rated Supranational Bonds (with maturity greater than 1 year)
 Highly Rated Ex UK sovereign Issues (with maturity greater than 1 year)

Definition of Approved Organisations for Investment

The Council allows its fund managers to lend funds to the following organisations:

Other Local Authorities
 Major clearing banks incorporated in the UK and their subsidiaries
 UK Building Societies
 Foreign Banks with an F1+ Rating
 HM Government, Supranational Bonds and Ex UK Sovereign Issues listed in London
 AIM Money Market Fund (Invesco Asset Management Only)

The Council has adopted minimum criteria, based on the Fitch IBCA Ratings, which any counterparty used by the fund managers must fulfil. These are as follows:-

	Short-Term	Long-Term
British/International Banks	Min. F1+	Min. AA-
British Building Societies	Min F1	Min. A
British Building Societies	Assets must exceed £1billion	

The Resources Executive Committee shall review the above list of institutions and limits attached thereto at least annually as part of the overall strategy review. Authority is delegated to the Director of Resources to vary the list and the limits applying as circumstances dictate, such variations to be reported to the Resources Executive Committee at the earliest opportunity.

Risk Guidelines for External Fund Manager (Invesco)

The objective of the externally invested funds is to achieve the maximum rate of return consistent with minimum capital risk. Within this framework the following investment guidelines have been set for the Council's fund managers to use:-

- a. the funds can be invested in short-term fixed interest rate deposits and Certificates of deposit carrying rates of interest of up to one year or debt instruments guaranteed by the UK Government (Gilts) or supranational bonds and ex UK sovereign issues;
- b. short-term cash deposits may be invested using the AIM Money Market Fund subject to a maximum investment of £5,000,000 at any one time;
- c. at any given time, a maximum of 70% of the market value of the fund may be invested in debt instruments guaranteed by the UK Government;

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- d. at any given time, a maximum of 25% of the market value of the fund may be invested in a combination of supranational bonds and ex UK sovereign issues;
- e. a maximum of 10% of the market value of the portfolio may be invested with any one counterparty (this does not apply to Gilts, Supranational Bonds or Ex UK Sovereign Issues);
- f. the maximum period of maturity for any single investment in debt instruments guaranteed by the UK Government must not exceed 10 years;
- g. the maximum average maturity of the portfolio will not exceed 3.5 years.

Risk Guidelines for External Cash Manager (Tradition UK)

- a. a maximum of £2million may be invested with any one counterparty.
- b. funds may be invested in accordance with the duration limits outlined below,

Period of Investment	Maximum Amount of Fund Invested
Up to 364 days	£10 million (Total Fund)
From 365 days to 2 years	£2 million
Over 2 years	£2 million

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The various responsibilities of the Treasury Management function shall be allocated as follows:

The Council

- Approval of the initial Treasury Management Policy Statement.
- Determination of the annual borrowing limit, the annual temporary borrowing limit, and the maximum level of borrowing on which variable interest is payable (as part of the Prudential Indicators reported to the Joint Executive Committees)

The Resources Executive Committee

- Approval of amendments to and reviews of the Council's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration and approval.
- Agreement of the annual treasury management strategy.
- Annual review of treasury activity.
- Agreement of the division of Treasury Management responsibilities.

Director of Resources

- Variations to approved investment institutions and associated lending limits
- Approval of leasing transactions and other credit arrangements
- Approval of all longer-term borrowing and lending transactions (over 364 days).
- Obtaining confirmation of the legality of proposed actions and instruments to be obtained.
- Report to elected members and advise the monitoring officer when appropriate

Financial Services Manager (The Responsible Officer)

- Review and Amendments of the Treasury Management Strategy and Policy Statement for approval by Resources Executive Committee.
- Organisation of the Treasury Management function.
- Approval of the use of all new brokers
- Monitoring and implementation of the Treasury Management Policy and Strategy Reports to Resources Executive Committee on future treasury management strategies and performance reviews
- Review of the Performance of the Treasury Management Function

Chief Accountant & Auditor

- Regular review of the Treasury Systems documentation
- Ensuring that all Treasury Management staff are aware of and have access to a copy of the Bank of England's latest version of the "London Code of Conduct".
- Prepare and implement the Treasury Systems document
- Ensure compliance with policies, limitations and directions
- Manage the overall treasury function
- Ensure appropriate division of duties.

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- Produce regular performance reports to the Director of Resources and Finance Services Manager
- Monitor the performance of brokers and recommend new ones as appropriate

Treasury Manager (Principal Technical Accountant)

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

Technical Accountancy Assistant

- To carry out the daily cashflow forecast and arrange any investment or recalling of funds as necessary.
- To perform monthly reconciliations of treasury management records with the information recorded on the General Ledger in Agresso.
- To assist the Treasury Manager with other general treasury management duties.

Internal Audit

- Review compliance with approved policies and procedures
- Review division of duties and operational practice
- Undertake probity audit of the Treasury function

TMP 6 Reporting Requirements and Management Information Arrangements

Director of Resources Reporting

Exception reporting – The Director of Resources will report to Resources Executive Committee and the Council’s Monitoring Officer if irregularities occur which require this.

Finance Services Manager Reporting

Prudential Indicator Report - The Finance Services Manager should recommend borrowing limits required by Local Government Act 2003 and the Prudential Code of Practice, to the full Council in time to enable these matters to be approved by full Council prior to the commencement of the relevant financial year.

Annual Treasury Strategy Report - The Finance Services Manager should report to the Resources Executive Committee before each year on the proposed Treasury Strategy for the ensuing year.

Annual Report on Treasury Management - The Finance Services Manager should report on the activities of the Treasury Management Function by 30th September after the year-end of the year in question. This report will include reference to the original strategy, and a comparison of performance.

Exceptional Items - The Finance Services Manager should also report on any other unusual treasury activity, and on any changes made to the strategy, or to other items of policy brought about by exceptional circumstances.

Chief Accountant & Auditor Reporting

The Chief Accountant will be responsible for the preparation of quarterly monitoring statements for the Director of Resources and Finance Services Manager including loans and investments made, interest rate movements, treasury activities in general and recommendations for the ensuing month. The report will also include any unusual items or concerns.

TMP 7 Budgeting, Accounting and Audit Arrangements

Budgeting

As part of the annual budget setting process, budgets for investment interest and bank charges are set. Examples of these budgets can be found in the schedules to TMP 1 under 'Liquidity Risk'.

Accounting Arrangements

The accounting arrangements in place for the Treasury Management function have been constructed in accordance with the Local Authority SORP 2003. Also, in accordance with the Best Value Accounting Code of Practice (BVACOP) the following codes are in place on the Council's main accounting system (Agresso):-

Account	Cost Centre	Detail	Description
B110	B1400		Investments Made (principal)
B111	B1400		Investments Recalled (principal)
9230	K0690	S05	Investment Interest (Internal)
9230	K0690	S01	Investment Interest (XX)
9230	K0690	S02	Investment Interest (YY)
7000	K0514	K08	Corporate Finance Recharges to Treasury Management
4140	K0690	D60	Fund Manager Fees
7030	K0510		Bank Fees

Audit Arrangements

Kennet District Council has a three-year, risk-based internal audit plan. The Treasury Management function is considered to be a high-risk area and is therefore audited on an annual basis.

Internal Audit reports on Treasury Management are issued to the following:-

- Director of Resources
- Financial Services Manager
- Chief Accountant & Auditor
- Principal Technical Accountant

TMP 8 Cash and Cash Flow Management

Standard Operating Procedures

Printing Bank Balances off Hexagon

- Turn on the PC and screen. Wait for the Novell Netware Login box to appear. The 'Name' should be "hexagon". Tab to 'Password' and type this in. If you can't remember this ask a member of the Technical Team. Click OK.
- A Login Results box will appear. Just click on 'Close'.
- Double click on the Hexagon icon on the desktop. This will open the software.
- Make sure the 'Customer ID' is "MD880023480". If not, click on the down arrow next to the number and choose it.
- The cursor should be flashing in the 'Delegate ID' box. Type your ID in here. Tab to 'Password' and type this in.
- From the top menu, select 'File Transfer'. Choose 'File Transfer' from the drop down menu.
- The 'Select batches to be sent' box will appear. Make sure the drive is 'C'. If not, choose this from the drop down list. Click on 'Receive only'.
- Tab down to 'Delegate ID' and type this and your password in as before. Tab to 'Session Password' and type in the last number from your card. Click OK.
- A box will come up with "your next session password". Write this down quickly on your card and click OK.
- The next box to appear will be the 'Select Files to be Received' box. Put a tick (by clicking) next to "Receive all new files". This will highlight the necessary files from the list below. Click Receive.
- Wait for the Online Hexagon to sign off.
- Three accounts' details will appear in a new box. Click 'Full Details'. Go to Print (top left-hand corner of screen) and click print from the drop down menu.
- Highlight the top account (by clicking into it) and click on 'Balance'. Go to print and print off as before.
- Now close all windows with the top right hand corner X to get back to the Desktop.
- Leave the screen on until you know whether you will have any payments to send.

Preparing the Daily Cashflow Forecasts

- Once you have printed the Hexagon Statements (see above) you can prepare the Daily Cashflow forecast.
- Open up the file called 'Cashflow Investments & Recs 03'. This can be found in F:\accsdata\achtechtm\Treasury\working files\0304.
- Using the tabs at the bottom of the screen, choose 'Cashflow'. Enter the details into this from the Hexagon Statements. This will give you an initial 'Total Available Balance'.
- For 'Other Known Transactions', look in the diary to see if there are any inflows or outflows recorded here. If so, enter them in the relevant row of that day's cash flow.
Some known, regular payments are:-

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- Benefits CHAPS – weekly on a Friday. Request for Telegraphic Transfer forms will come up a day or two before payment from Carol Strickland.
- SHG grants – you will be informed of the date and amount by Housing. Check payment is received from the Housing Corporation prior to sending payment (see other notes).
- Precepts – twice a month – information for this is in the blue ring binder ‘Precept’ file.
- Any incoming maturing deposits and their interest.
- After all of these entries you will have a ‘Balance Carried Forward’ at the bottom of the page.
- Depending on the balance carried forward a decision should be made whether to recall extra money to cover a shortfall or invest any surplus cash. This should be done in liaison with the Principal Technical Accountant. If any further investments are made they should be entered in the bottom part of the spreadsheet and will give a revised Balance carried forward.
- At the end of each week the Cashflow sheet should be printed off and filed in the ‘Cashflow Forecasts 2000 →’ file.

Making Investments

- Firstly, decide from the Cashflow forecast whether there will be money to invest (any less than £200,000 should be left). If so, you need to decide whether it should be fixed, or placed ‘overnight’. This will all depend on how much money there is, what the rates are like that day and what payments we need to cover.
- Take out the ‘Current Investments’ File from the shelf and look at the ‘Schedule of Known Payments’. This is an overview of 3 to 6 months and will show you at a glance where investments need to be fixed to.
- Alternatively if you know there will be payments going out tomorrow because of the cheque run, for example, you can place the investment overnight.
- Once you know how much you want to invest and for how long, you can get in touch with one of the brokers.
- It is a good idea to check how much money is placed through each broker, so that we can ensure they all have approximately equal amounts.
- Once you know who you want to call give them a ring – the contact numbers are in the front of the diary. Tell them how much you want to invest and for how long. They will usually go away and ring you back when they’ve found something.
- When they call back with the details you will need to check which financial institutions we have ‘room with’. We are only allowed to lend certain amounts to certain banks and this must be strictly adhered to. We also cannot lend to anyone not on our lending list. The lending list is filed in the ‘Current Investments’ File. Refer to this whilst dealing with the broker.
- Fill all the details given to you in onto a ‘Temporary Lending Record. Make sure you have the correct bank sort code and account number of who you are sending money to. This form will then need to be signed by an authorised officer. You can now send the ‘CHAPS’ payment (see below).

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- Write the details of the transaction on the 'Outstanding Investments' sheet in the 'Current Investments' File, taking the next consecutive number as the Loan Number. This number should go on the top right hand corner of the Temporary Lending Record Sheet.
- File the Temporary Lending Record Sheet under a new divider with the loan number on in the 'Temporary Borrowing and Lending – Current' File.
- Write the date the loan matures into the diary, including any interest we will receive. Also include this in the Schedule of Know payments. This can be found under in the same folder as 'Cashflow Investments & Recs 03' and is called 'Payment Schedule'. Print this off and put in the 'Current Investments' File, throwing the old one away.
- Put the details of the transaction into the Cashflow spreadsheet.
- Go to the Investments tab in 'Cashflow Investments & Recs 03'. Put the details of the transaction in at the bottom of this sheet. At the end of the row copy the formula from the row above down to give a new 'Total Currently Invested' figure. This figure then needs to be copied and pasted into the 'Qutly Report WPs 03' Spreadsheet.
- Under F:\accsdata\achtectm\Treasury\working files\masters you will find a file called 'Treasury Management Dealings'. Open the file. In here type in the details of all Investments Made, Recalled and any other payment made via CHAPS that day. Print this off and place in the Accountancy Assistant (Cash Book) tray. You do not need to save this file when you close it as it changes every day.
- Finally fill in the daily balances spreadsheet. This can be found with the other files in the Treasury Management folder. Each day you will need to copy the tab across and add or take any investments made or recalled to show that day's outstanding investment balance and what this is made up of. This can then be used for the quarterly accrued interest calculation and the monthly borrowing and lending inquiry.

Recalling Investments

- Fixed Investments
For fixed term investments you will know the date which they will be repaid. Most of these will automatically be paid back into Kennet's account, but usually the broker will contact you to see if this is what you want to do, or whether you would like to reinvest the money. If you don't hear from the broker by a reasonable time it is a good idea to call them just to check that the investment will be repaid.
- All the above transactions will need to be listed in the Cashflow forecast for the day, the Investments spreadsheet and the Treasury management dealings sheet for Accountancy Assistant (Cash Book).
- Go to the list of Outstanding Investments in the 'Current Investments' file and strike through completed investments with a yellow highlighter.
- Remove the matured loan's details, including divider and other documents from the file and file in the 'Completed Investments 2003/04' File.

CHAPS Payments

- CHAPS payments are made via the Hexagon system and can be for a variety of payments as follows:-
 - Investments
 - Precepts
 - Benefits
 - Housing Grants
 - PAYE and NI payments
 - Leasing payments etc.
- You will always have a paper request for payment which should be signed by an authorised officer. If this is not signed it cannot be sent. These forms are not standard, so you will receive a variety of shapes, sizes and colours!
- Go back to the Hexagon PC which should be at the Desktop screen.
- Double click on the Hexagon icon on the desktop. This will open the software.
- Make sure the 'Customer ID' is "MD880023480". If not, click on the down arrow next to the number and choose it.
- The cursor should be flashing in the 'Delegate ID' box. Type your ID in here. Tab to 'Password' and type this in.
- Choose 'Payments' from the top menu bar. Drop down to 'Payments' and go across to choose 'Priority Payments'.
- Click 'Add' from the drop down menu which will appear under 'Payments' on the top menu bar on the new screen.
- The 'Select Batch to Add' box will now appear. You will now have to think of a Batch ID and type this in. Click OK.
- A box will appear asking if you want to create the batch. Click OK.
- You will then need to select a template. If you know one already exists for who you are sending a payment to, scroll to it and click OK. If not just click OK to take you to a blank template.
- Fill in the transaction details in the template, including Amount, Date, Beneficiary Bank details – name and sort code, Beneficiary name and account number and put a brief narrative. Tick next to charges to be taken from Debiting account.
- When you are happy that the template is complete go to the top of the screen and click Add.
- A box will appear saying that the Sort Code is not a defined reference. Don't worry about this, simply click Cancel.
- A drop down menu will appear. Click Exit.
- Go to File Transfer on the top menu bar and drop down to select 'File Transfer'.
- The 'Select Batches to be Sent' box will appear. Put a tick next to 'All Batches'. This will highlight any batches you have just set up in 'Payments'. Click on 'Send only' to transfer the files.
- The Online Signon box will appear. Type in your password and session password and click OK. REMEMBER to write down your next session password quickly when it appears. Click OK.
- Click on Exit to take you back to the PC's desktop.
- Request for the payment to be authorised by one of the authorised officers.

Reconciling Investments

- The whole point of reconciling is to check that what is on your spreadsheet records, is the same as Agresso.
- From Hexagon, call off the money master account statement for the month you are reconciling.
- In Agresso, select cost centre B1400. The amounts in there are:
The principal of the investments made and recalled each day by the Technical team and money that is 'swept' from the money master account each day.
- Select the period of time that you are reconciling so that you can see the amounts for the period. Print this off for accounts B110 and B111.
- Also either print off or make a note of, the cumulative total on this code from week the start of the year up to and including the period you are reconciling.
- In Agresso select Account 9230, Cost Centre K0690 and Detail S05. This account is made of the interest from investments made each day by the Technical team and interest made on the money master account. Again print off the code so that you can see the transaction amounts for the period you are reconciling. Print or note the cumulative total.
- From the 'Cashflow Investments & Recs 03' spreadsheet, from the 'investments' sheet print off the period you are reconciling. Rule off the separate weeks.
- Using the hexagon print out, complete the 'money master' sheet in the same spreadsheet.
- Print out the period you are reconciling.
- In the 'reconciliation' sheet complete the columns with the relevant information.
- Any differences should be checked and usually can be traced back by the weekly breakdowns. The cashbook maintained by the Financial Accountancy Assistant (FAA) can provide the detailed breakdown of the amounts that have been posted to Agresso.
- Occasionally if there is an investment 'rolled over' the FAA may not have been informed about this and will then not have posted the relevant amount to Agresso. If this happens let them know and they can either adjust the cashbook or put a journal through (this will go through in the current period, rather than being posted back).

TMP 9 Money Laundering

The Council's Anti-Fraud and Corruption Strategy contains a section relating to money laundering and the controls in place to prevent this at Kennet District Council.

TMP 10 Staff Training and Qualifications

The staff currently (see revision date on front cover) involved in Kennet District Council's Treasury Management Function have the following relevant qualifications:-

Position	Name	Qualifications
Director of Resources	Frank Marshall	BA, CPFA, IRRV
Financial Services Manager	Andrew Hart	CPFA
Chief Accountant and Auditor	Janet Ditte	BA, CPFA
Principal Accountant (Planning & Resources)	Grant Davis	BA, CPFA
Principal Accountant (Community Services)	Paul Butler	BSc, CPFA
Principal Technical Accountant	Debbie Price	BSc, CPFA
Senior Accountant (Community Services)	Crystal Thomas	CPFA
Senior Accountant (Planning & Resources)	Jane Bishop	AAT
Technical Accountancy Assistant	Kate Davis	

TMP 11 Use of External Service Providers

Internally Invested Funds

Policy on the use of Brokers

The Council employs a number of brokers who must demonstrate adherence to the London Code of Conduct for principals and broking firms.

The policy is to use at least three firms to promote competitiveness and allow comparisons of service provided, and to avoid any accusations of favouritism. The firms most commonly used by the Council at present are as follows:

- Prebon Yamane
- Inter Capital Bank (Formally Exco)
- Sterling Brokers
- Tradition UK (Formerly City Deposit Brokers)

If a broker's service falls short of expected standards or gives grounds for concern then a new broker will be substituted.

Policy on Dealing Direct

The Council will not only deal through Brokers. In some instances the Council will deal with organisations directly with the expectation that better rates will be achieved by dealing in this way.

Externally Invested Funds

Fund Managers General

The Council may use external fund managers should the level of funds available for investment become too large for the in-house staff to manage. No one fund manager will have funds greater than £20M at the time funds are placed and the performance of the managers will be reviewed at least every 4 years. The Council currently has one fund manager, Invesco Asset Management and one cash manager, Tradition UK.

The objective of the funds managed by the external fund managers is to achieve a maximum rate of return consistent with minimum capital risk. The interest earned by the fund managers is retained within the funds and invested.

Fund managers will agree to be bound by the Council's Treasury Management Policy Statement unless the Council determines to alter the Treasury Management Policy Statement on their advice.

Fund Manager Performance Review

Fund Managers performance will be judged against a set standard return based on market rates, and regular reports will be made to the Finance Services Manager who will report the results annually to the Resources Executive Committee, or more often when exceptional circumstances require this.

Fund Manager Selection Process

The process of selection of Fund Managers will involve the creation of a long-list, with responses to an Expression of Interest Questionnaire being used to reduce this number to a shortened long-list. Following presentations to officers, a final short-list will be produced, and candidates will be expected to carry out presentations to Members after which final selection will be made.

TMP 12 Corporate Governance

There are no specific schedules for this item. All other schedules for TMPs 1 to 11 are in place to ensure proper corporate governance within the Treasury Management Function of the Council.

KENNET DISTRICT COUNCIL ANNUAL INVESTMENT STRATEGY

1. INTRODUCTION

When deciding the treasury management policies and strategies, the Council will give priority to the security and liquidity of the investments, rather than to the yield of the investments. The general policy objective is that the authority should prudently invest the temporarily surplus funds held on behalf of the community. The strategy laid down in this document has been prepared in accordance with these objectives.

The strategy will also be consistent with Council's Treasury Management Statement and in particular, TMP 4 Approved Investments, Methods and Techniques.

The strategy should be read in conjunction with TMP 4, which explicitly outlines those types of investment that may be used, the organisations that may be used and also details the Council's definition of "*high credit rating*".

2. SPECIFIED INVESTMENTS

Specified Investments are those investments made either with the UK Government or other UK Local Authority, or with a body that has been awarded a high credit rating. In addition, the investment must have a period of majority of no longer than 1 year. Specified investments exclude the acquisition of share capital or loan capital in a body corporate (E.g Corporate Bonds).

Those funds managed and invested internally by the Council may only be invested in line with the requirements of TMP 4.

The Council may use the following categories of investment (where the maturity is for no longer than 1 year):

- Fixed Term Deposits
- On Call Deposits
- Money Market Funds (Internally Managed Funds)
- AIM Money Market Funds (Externally Managed Funds)
- Certificates of Deposit (Externally Managed Funds Only)
- Gild Edged Securities (Externally Managed Funds Only)
- Supranational Bonds eg. EIB (Externally Managed Funds Only)
- Ex UK Sovereign Issues (Externally Managed Funds Only)

These investments may be made with the following organisations:

- Other UK Local Authorities
- UK Government
- Major Clearing banks incorporated in the UK and their subsidiaries
- UK Building Societies
- British Merchant Banks and Securities House Association Members
- The Secondary Banking Sector
- Foreign Banks
- Supranational Bonds listed in London.
- AIM Money Market Fund (externally managed fund with Fund Managers only)

TMP 4 provides details of the credit ratings that each of these organisations must have in order for the Council to invest with them.

3. NON-SPECIFIED INVESTMENTS

Non-specified investments are those investments which do not meet the criteria for specified investments. In particular, this would include investments with a maturity of more than one year.

In deciding which categories of non-specified investments the Council may prudently use, the following procedures should be used:

- a) seek the advice of the Council's externally appointed specialists;
- b) evaluate the category of investment with regard to the Council's policy of maximising the security and liquidity of its investments.
- c) Make recommendations based on the information obtained in a) and b), to Members, agree that the category of investment may be added to the list of Non-specified investments that may be used by the Council.

To date, the Council has agreed that the following type(s) of non-specified investment may be used:

- Fixed Term Deposits with UK Building Societies with assets exceeding £1billion.
- Gilt Edged Securities issued by the UK Government (Gilts) (with maturity greater than 1 year)(Externally Managed Funds Only)
- Supranational Bonds (with maturity greater than 1 year)(Externally Managed Funds)
- Ex UK Sovereign Issues (with maturity greater than 1 year)(Externally Managed Funds)

At any one time, a maximum of 70% of the value of the individual investment portfolios managed by the fund managers, may be invested in Gilts. The maximum period of maturity of a single Gilt is limited to 10 years.

4. LIQUIDITY OF INVESTMENTS

The Council acknowledges the importance of the liquidity of its investments when determining its investment strategy. Therefore, the following guidelines have been agreed:

- All internally managed funds (100%) are to be invested with a period to maturity of no more than 364 days.
- For externally managed funds, a maximum of 70% of the portfolio may be invested in Gilts with a maximum period of maturity of 10 years.
- For the externally managed funds (Fund Manager), a minimum of 30% of the portfolio must be invested in specified investments that have a period of maturity of no more than 364 days.
- For the externally managed funds (Fund Manager) a maximum of 25% of the portfolio can be invested in a combination of supranational bonds and ex UK sovereign issues.
- For the externally managed funds (Cash Manager), a minimum of 60% of the portfolio must be invested in investments that have a period of maturity of no more than 364 days.

In determining the liquidity guidelines of the Council's investments, the following points should be borne in mind:

- The cash flow requirements of the authority
- Is the category of investment negotiable (i.e. can it be freely bought and sold on the markets)

5. TREASURY MANAGEMENT STRATEGY

5.1 Cash Flow Management and Internally Managed Investments

The Council's Internal Investment Strategy for the forthcoming twelve months is as follows:

- 5.1.1 To invest surplus funds, in specified and non-specified investments, to achieve maximum liquidity and security and minimum risk.
- 5.1.2 To invest the Council's surplus funds to achieve maximum returns whilst fulfilling short-term cash flow requirements.
- 5.1.3 To achieve a minimum return equivalent to the Local Authority 7 Day Notice Rate [Policy & Finance Committee 3/10/95].

5.2 Investments of Surplus Funds Through Externally Appointed Fund Managers

The Council's Investment Strategy for its externally managed funds for the forthcoming twelve months is as follows:

- 5.2.1 To continue the low risk investment policy of maximising the rate of return whilst minimising capital risk, consistent with the requirement to secure the liquidity and security of the investments.
- 5.2.2 To invest surplus in specified and non-specified investments within the guidelines determined in sections 2 to 4 above.
- 5.2.3 To achieve a minimum rate of return equivalent to 50 basis points above the Local Authority 7 Day Rate for Invesco Asset Management and to exceed the Local Authority 7 Day Rate by 10% for Tradition UK.

5.3 Short Term Borrowing Strategy

The Council's strategy for the forthcoming twelve months will be as follows:

- 5.3.1 The Council will only borrow short-term (upto twelve months) for the purpose of maintaining sufficient cash flow.
- 5.3.2 The limit set on the total amount of outstanding short-term borrowing at any time in 2006/07 will be an Operational Boundary of £1,500,000 and an Authorised Boundary of £2,000,000.

5.4 Long Term Borrowing Strategy

The Council's strategy for the forthcoming twelve months will be as follows:

- 5.4.1 To carry out no long-term borrowing.
- 5.4.2 The limit set on the total amount of outstanding borrowing (including short-term borrowing) will be an Operational Boundary of £1,500,000 and an Authorised Boundary of £2,000,000 I.e. no long-term borrowing is authorised.

5.5 Interest Rate Exposure

The net interest receipt for the forthcoming twelve months will be as follows:

- 5.5.1 Upper Limit – Fixed Rates 100%
- 5.5.2 Upper Limit – Variable Rates 20%