

**REPORT TO: POLICY AND RESOURCES COMMITTEE - 22 MARCH 2010**

**REPORT ON: TREASURY POLICY STATEMENT**

**REPORT BY: DIRECTOR OF FINANCE**

**REPORT NO: 162-2010**

## **1 PURPOSE OF REPORT**

This report 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 INTRODUCTION**

The Policy and Resources Committee approved the current Treasury Policy Statement on 24 March 2008 (Report No 172-2008). This is subject to review every three years or earlier in the event of a major policy change.

There have been major national developments in the last year and the Statement has been updated to reflect these changes in circumstances.

## **5 BACKGROUND**

### The Revised CIPFA Treasury Management Code of Practice 2009

In the light of the Icelandic situation in 2008, CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes, Guidance Notes for Local Authorities and the template for the revised Treasury Management Policy Statement. It is also a requirement of the Code that this Council should formally adopt the Code. As the Code has been revised, there is a requirement for the Council to adopt in full the revised Code, the revised Treasury Management Policy Statement and the revised CIPFA prudential Code.

The revised Code has emphasised a number of key areas including the following: -

- a) All councils must formally adopt the revised Code and four clauses.
- b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
- d) Responsibility for risk management and control lies within the Council and cannot be delegated to any outside organisation.

- e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- h) The main annual treasury management reports must be approved by the full council.
- i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body. This will continue to be the Policy and Resources Committee.
- k) Treasury management performance and policy setting should be subjected to appropriate scrutiny.
- l) Members should be provided with access to relevant training.
- m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
- n) Responsibility for these activities must be clearly defined within the organisation.
- o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

This strategy statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be approved annually by the Policy and Resources Committee and there will also be a mid year report. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

This Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code: -

<b>Area of Responsibility</b>	<b>Council/ Committee/ Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement (revised)	P&R Committee	Initial adoption in 2010 then every 3 years
Treasury Management Strategy / Annual Investment Strategy	P&R Committee	Annually before the start of the financial year
Treasury Management Strategy / Annual Investment Strategy – mid year report	P&R Committee	Annually by December

Treasury Management Strategy / Annual Investment Strategy – updates or revisions at other times	P&R Committee	As required
Annual Treasury Outturn Report / Annual Investment Report	P&R Committee	Annually by 30 September after the end of each financial year
Treasury Management Practices	Director of Finance	As required.

#### Revised CIPFA Prudential Code

CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -

- authorised limit for external debt
- operational boundary for external debt
- actual external debt.

However, all indicators are to be presented together as one suite. In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

#### Investment Regulations 1 April 2010

The Scottish Government has recently issued draft investment regulations (The Local Government Investments (Scotland) Regulations 2010) and a finance circular which sets out the requirements to obtain the consent of Scottish ministers for making investments; these are intended to be approved for implementation from 1 April 2010. This report has been amended in accordance with the requirements of these documents.

## 6 **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 contains:-

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

## 7 **POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

The major issues identified relate to Risk Management and these are addressed in Section II of the Treasury Policy Statement under TMP1. This is further summarised in the Risk Register shown in Appendix A.

## 8 **CONSULTATION**

The Chief Executive and the Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

**9 BACKGROUND PAPERS**

CIPFA Treasury Management in the Public Services Code of Practice and Cross -Sectoral Guidance Notes.

CIPFA Treasury Management in the Public Service Guidance Notes for Local Authorities.

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DIRECTOR OF FINANCE**

**16 MARCH 2010**

**DUNDEE CITY COUNCIL**

**TREASURY POLICY STATEMENT**

## **INDEX**

<b><u>Section</u></b>	<b><u>Title</u></b>
	Introduction
I	Treasury Management Policy Statement
II	Treasury Management Practices
a	Treasury Risk Management
b	Performance Measurement
c	Decision-making and Analysis
d	Approved Instruments, Methods and Techniques
e	Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements
f	Reporting Requirements and Management Information Arrangements
g	Budgeting, Accounting and Audit Arrangements
h	Cash and Cash Flow Management
i	Money Laundering
j	Training and Qualifications
k	Use of External Services Providers
l	Corporate Governance
Appendix A	Risk Register

## INTRODUCTION

CIPFA published a revised 'Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes' (the Code) in 2009. The revised Code requires that a report be submitted to the council, board or other appropriate body, setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the council, board or other appropriate body.

The revised Code has also set out various requirements which have been summarised in paragraph 1 of the latest Treasury Management Strategy Statement.

## RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
  - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
  - suitable treasury management practices (TMPs), 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.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. The Policy and Resources 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, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to The Policy and Resources 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 TMP's.
4. This organisation nominates The Policy and Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

In addition, the investment regulations paragraph 36 require all Scottish local authorities to adopt in full both the CIPFA Treasury Management Code and the CIPFA Prudential Code :-

- This authority adopts in full both the CIPFA Treasury Management Code and the CIPFA Prudential Code.

## **I TREASURY MANAGEMENT POLICY STATEMENT**

- 1 Dundee City Council defines its treasury management activities as:  
"The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 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 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 services objectives. It is therefore committed to the principles of achieving value for money 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 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 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**

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

### Policy on the use of credit risk analysis techniques

1. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.
2. Credit ratings will be used as supplied from all three rating agencies - Fitch, Moodys and Standard & Poors.
3. Treasury Management Consultants will provide regular updates of changes to all ratings relevant to the council.
4. The Director of Finance will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

## 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.

**TMP3 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.

**TMP4 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*.

**TMP5 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, 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 TMP's and CIPFA's Standard of Professional Practice on treasury management.

## **TMP6 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 Policy and Resources 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 which belong to 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.

**DUNDEE CITY COUNCIL  
LOANS FUND TREASURY RISK REGISTER**

Type of Investment	Treasury Risks	Mitigating Controls
<p><b>a.</b> Deposits with the Debt Management Account Facility (UK Government) (<b>Very low risk</b>)</p>	<p>This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.</p>	<p>Although this is a UK Government investment the monetary limit is still set at £12m.</p>
<p><b>b.</b> Deposits with other local authorities or public bodies (<b>Very low risk</b>)</p>	<p>These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.</p>	<p>Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment. Limit is set at £8m for each body.</p>
<p><b>c.</b> Call account deposit accounts with financial institutions (banks and building societies) (<b>Risk is dependant on credit rating</b>)</p>	<p>These tend to be moderately low risk investments, but will exhibit higher risks than the category (a) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.</p> <p>These will be used to provide the primary liquidity source for Cash Management.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Pools.</p> <p>On day to day investment, dealing with this criteria will be further strengthened by the use of additional market intelligence. A limit of £12m will apply for each counterparty.</p>
<p><b>d.</b> Term deposits with financial institutions (banks and building societies) (<b>Low to medium risk depending on period and credit rating</b>)</p>	<p>The risk on these is determined, but will exhibit higher risks than category (a) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Pools.</p> <p>On day to day investment, dealing with this criteria will be further strengthened by the use of additional market intelligence. A limit of £12m will apply for each institution.</p>
<p><b>e.</b> Open Ended Investment Companies (OEIC's) (<b>Low to medium risks</b>)</p>	<p>Pooled investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be sparingly used.</p>	<p>Funds will only be used in limited instances and in some cases purely for Common Good and Insurance Investments for which there is a slightly higher risk appetite.</p>

<b>f.</b> UK Treasury Bills ( <b>Very low risk</b> )	<p>These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).</p>	<p>Although this is a UK Government investment, it will be limited to 20% of total investments.</p>
<b>g.</b> UK Gilts ( <b>Very low risk</b> )	<p>These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill.</p>	<p>Although this is a UK Government investment, it will be limited to 20% of total investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.</p>
<b>h.</b> Bond issued by financial institution explicitly guaranteed by Government	<p>These are marketable securities whose explicit guarantee means counterparty and liquidity risk is very low. There is a potential risk from an adverse movement in interest rates which will affect capital value if not held until maturity.</p>	<p>Would only be used at short end and would intend to hold until maturity. Limit of 20% of total investments.</p>
<b>i.</b> Equities	<p>These are more subject to market risk and loss of capital.</p>	<p>These will only be held as a part of Common Good or Insurance Investments to help generate income and capital growth.</p>
<b>j.</b> Investment properties	<p>These are non-service properties which are being held solely for a longer term rental income stream or capital appreciation. These are highly illiquid assets with high risk to value (the potential for property prices to fall)</p>	<p>Property holding will be re-valued regularly and reported annually with gross and net rental streams.</p> <p>It is unlikely that this type of investment will be used.</p>

<b>k.</b> Loans to third parties, inc soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit substantial credit risk and are likely to be highly illiquid.	Each third party loan requires Council approval and each application is supported by the service rationale behind the loan and the likelihood of a partial or full default.
<b>l.</b> Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit significant credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Council approval and each application is supported by the service rationale behind the loan and the likelihood of partial or full default.
<b>m.</b> Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Council approval and each application will be supported by the service rationale behind the investment and the likelihood of loss.