

**ITEM No ...7.....**

**REPORT TO: POLICY AND RESOURCES COMMITTEE – 13 MARCH 2017**

**REPORT ON: TREASURY POLICY STATEMENT**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 82-2017**

**1 PURPOSE OF REPORT**

This report revises the Council'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 2017/18' and note that a recent Internal Audit Review has been undertaken, the final report of which will be presented to the next Scrutiny Committee on 19th April 2017. The Treasury Policy Statement be reviewed annually.

**3 FINANCIAL IMPLICATIONS**

None.

**4 INTRODUCTION**

The Policy and Resources Committee approved the current Treasury Policy Statement on 14 March 2016 (Article XVI of the Minute of Meeting of the Policy and Resources Committee of 14 March 2016, Report No 89-2016 refers). The statement is subject to review annually or earlier in the event of a major policy change.

**5 BACKGROUND**

The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectorial Guidance Notes 2011 (The Code)

CIPFA issued a revised version of the Code in 2011 to replace the 2009 version. It also revised the Guidance Notes for Local Authorities and the Prudential Code. There are no significant changes to the Code or Guidance Notes which affect Scottish local authorities. There is a requirement for the Council to adopt in full the Code, the Treasury Management Policy Statement and the CIPFA Prudential Code.

The Code identifies 3 key principles:-

- 1 Formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of treasury management activities should be put in place.
- 2 Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within the Council. The appetite for risk should form part of the amended strategy including any use of financial instruments for the prudent management

of these risks and should ensure that priority is given to security and liquidity when investing funds.

- 3 The pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools to employ in support of business. Service objectives should be acknowledged and within the context of effective risk management, treasury management policies and practices should reflect this.

This strategy statement has been prepared in accordance with the 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 Code: -

<b>Area of Responsibility</b>	<b>Council/ Committee/ Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement	P&R Committee	Annually at the start of the financial year
Treasury Management Strategy / Annual Investment Strategy	P&R Committee	Annually at the start of the financial year
Treasury Management Strategy / Annual Investment Strategy – mid-year activity 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	Executive Director of Corporate Services	As required

### CIPFA Prudential Code

CIPFA also issued a revised Prudential Code in 2011 which primarily covers borrowing and the Prudential Indicators.

These indicators are to be presented together as one suite. The Council has followed the requirements of the code in all Indicators reported to the Policy and Resources Committee.

### Investment Regulations

The Scottish Government issued 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. This report is 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 Head of Democratic and Legal 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-Sectorial Guidance Notes 2011.

CIPFA Treasury Management in the Public Service Guidance Notes for Local Authorities 2011.

CIPFA The Prudential Code for Capital Finance in Local Authorities 2011.

**MARJORY M STEWART**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**3 MARCH 2017**



# DUNDEE CITY COUNCIL

## TREASURY POLICY 2017-2018

Executive Director of Corporate Services  
February 2017

# INDEX

1. Treasury Management Policy Statement
2. Delegations of Authority and Governance
  - 2.1 Scheme of Delegation
3. Borrowing Policies
  - 3.1 Sources & methods of borrowing
  - 3.2 Borrowing in advance of need
  - 3.3 Debt Rescheduling
4. Investment Policies
  - 4.1 Creditworthiness Policy
  - 4.2 Country Limits
  - 4.3 Policy on longer term investments
  - 4.4 Permitted investments (non-treasury instruments)
5. Cash & Liquidity Management Policies
6. Additional Treasury Management Practices as required by CIPFA
7. Treasury Risk Register

## 1. TREASURY MANAGEMENT POLICY STATEMENT

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."**

Dundee City Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

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.

Dundee City Council must comply with the appropriate regulations, codes and guidance when undertaking treasury management activities:

- The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
- The Local Government Investments (Scotland) Regulations 2010
- Local Government in Scotland Act 2003
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance
- CIPFA Prudential Code for Capital Finance in Local Authorities

## 2. DELEGATIONS OF AUTHORITY & GOVERNANCE

### 2.1. Scheme of Delegation

#### Policy and Resources Committee

- Approve annual treasury management policy and strategy.
- Review periodic treasury management activity reports.
- Approve amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.

- Provide budget consideration and approval.

#### Executive Director of Corporate Services

- Ensure that all the Council's borrowing and lending transactions and practices comply with the CIPFA Code of Practice on Treasury Management in the Public Services.
- Prepare a Treasury Policy Statement which will be approved by the Policy and Resources Committee and reviewed annually.
- Prior to the commencement of each financial year submit a report to the Policy and Resources Committee on the Treasury Management Strategy for that year (including forecasts).
- Monitor compliance of activities to approved policies, strategies and practices including the performance of Treasury Management.
- Submit a report to the Policy and Resources Committee twice yearly reviewing the Council's Treasury Management activities, and comparison to forecasts. One of these reports will be an annual report on the Treasury Management activities of the previous financial year.
- Approve the selection and appointment of external service providers and agreeing terms of appointment.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensure the adequacy of internal audit, and liaise with external audit.

#### Internal Audit

- Provide internal audit services to the Tayside Pension Fund in conformance with the mandatory Public Sector Internal Audit Standards.
- Consider the assessment of risk relating to the Tayside Pension Fund during the annual risk based Internal Audit planning exercise carried out for Dundee City Council.
- Provide a resource allocation in the Internal Audit Plan, when considered appropriate by the Senior Manager – Internal Audit, for reviewing the internal controls in place.



- Deliver the assignments detailed in the Internal Audit Plan, discussing and agreeing the scope and objectives, including, where appropriate, recommendations for improving the overall control environment.
- Undertake follow-up and progress reviews as and when required and report, as appropriate, on the findings from these exercises.

### **3. BORROWING POLICIES**

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet service activities. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current year and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

#### **3.1. Sources & Methods of Borrowing**

The council will generally undertake 2 types of borrowing:

Long term borrowing (over 1 year) – These funds are sourced predominantly from UK Treasury (formerly PWLB) in line with available capacity within the prudential limits set as maximum levels of borrowing. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Short term borrowing - (under 1 year) – These funds are sourced from other local authorities via market brokers or directly. The limit is set by the council as part of its treasury indicators and must not exceed 30% of the net variable rate borrowing.

A detailed list of approved methods of raising capital finance can be found within **TMP4 – *Approved Instruments, Methods & Techniques***.

### **3.2. Borrowing in advance of need**

The Council will not borrow in excess of its Capital Financing Requirement with the prime intention to profit from the investment of the extra sums borrowed. In accordance with the revised Code, any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

### **3.3. Debt Rescheduling**

The Council will monitor opportunities to refinance existing long term debt in order to generate savings or to support the current Treasury Strategy and longer term debt maturity profile, and will take action as appropriate. The Executive Director of Corporate Services will report to Committee on any such activities.

## **4. INVESTMENT POLICIES**

The Council's investment policy has regard to the Scottish Government's - Investment (Scotland) Regulations 2010, (and accompanying Finance Circular), and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes, ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the Scottish Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

### **4.1. Creditworthiness policy**

This Council applies the creditworthiness service provided by Capita Asset Services (CAS). This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years \*
- Dark pink 5 years for Enhanced cash funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced cash funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The CAS creditworthiness service use ratings from all three agencies, but by using a scoring system, it does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored continuously. The Council is sent a weekly list from CAS of all the investment counterparties with a summary of the all the ratings changes in the preceding week but is also alerted daily to changes to ratings of all three agencies through its use of the CAS creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

The maximum deposit will be in line with counterparty credit rating as follows:

- F1+ £12m
- F1 £10m
- AAAMf - Money Market Funds £10m
- UK Local Authorities £10m
- Debt Management Agency £10m
- Part-Nationalised UK Banks £5m  
(with a minimum holding of 20% as per CAS approach)
- OEICs - Government Liquidity, Gilt, Bond and Equity Funds\* 70% of asset class with any one institution

\* Common Good and Insurance Funds only or at discretion of Executive Director of Corporate Services – see section 7 “Treasury Risk Register”

#### **4.2. Country limits**

The Council will only use UK regulated institutions.

#### **4.3. Policy on longer term investments**

Until the new investment regulations took effect from 1 April 2010, investing by Scottish local authorities was limited to one year. This restriction has been removed from that date and this authority accordingly wishes to be able to make use of this power at times when such investing is both appropriate and attractive.

This may be exercised for general treasury management purposes in line with Capital Financing Requirements within the Capital Plan with the exception of earmarked investments made at the Discretion of the Executive Director of Corporate Services.

#### **4.4. Permitted Investments (non-treasury investments)**

The Council shall in addition to treasury investments shall have investments as required in the following areas:

- Shareholding, unit holding and bond holding, including those in a local authority owned company to a limit of £100,000.
- Loans to a local authority company or other entity formed by a local authority to deliver services.

- Loans made to third parties for service reasons and for which specific statutory provision exists\* (to a maximum of £30m with £10m with any single party)
- Investment property.

\* These loans will normally be made at prevailing market rates but on occasion for service reasons, these may be offered at an interest rate below the market rate but always ensuring that the Council takes account of such issues as State Aid as advised by CAS. Annual Strategies and Reports will need to recognise all loans to third parties as investments.

## 5. CASH & LIQUIDITY POLICIES

The purpose of this policy is to outline the principles of cash management across the Council and for those who it undertakes Treasury and Banking Services to ensure the efficient and effective management of cash resources to maximise investment income while ensuring sufficient cash on hand to meet obligations and avoid funding shortfalls.

This policy also contributes towards meeting the Council's obligations to all relevant parties by ensuring the existence of an effective cash management system to provide for the payment and investment of cash, transmitting timely and reliable cash flow forecasts and ensuring compliance with relevant statutory and regulatory requirements.

## 6. TREASURY MANAGEMENT PRACTICES

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

### TMP 1 Risk Management

The Executive Director of Corporate Services 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 Executive Director of Corporate Services. In summary, the following types of risks are identified, more information can be found in detailed TMPs –

- Liquidity Risk Management

- Interest Rate Risk Management
- Exchange Rate Risk Management
- Inflation Risk Management
- Credit and Counterparty Risk Management
- Refinancing Risk Management
- Legal and Regulatory Risk Management
- Fraud, Error and Corruption and Contingency Management
- Market Risk Management

## **TMP 2 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 Executive Director of Corporate Services.

## **TMP 3 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 Executive Director of Corporate Services.

## **TMP 4 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 Executive Director of Corporate Services and within the limits and parameters defined in **TMP1, Risk Management**.

## **TMP 5 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 Dundee City Council requires to depart from these principles, the Executive Director of Corporate Services 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 Executive Director of Corporate Services 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 Executive Director of Corporate Services.

The Executive Director of Corporate Services 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 Executive Director of Corporate Services.

The delegation to the Executive Director of Corporate Services in respect of treasury management is set out in the Introduction to the Treasury Policy Statement. The Executive Director of Corporate Services 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.

### **TMP 6 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.

### **TMP 7 Budgeting, Accounting and Audit Arrangements**



The Executive Director of Corporate Services 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 Executive Director of Corporate Services 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.

### **TMP 8 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 Executive Director of Corporate Services, 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 Executive Director of Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1) Liquidity Risk Management.

### **TMP 9 Money Laundering**

Dundee City Council is alert to the possibility that it may become the subject of attempts to involve it in transactions involving the laundering of money. Accordingly, it will have a policy which is reviewed every three years (or earlier if regulations require), maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved with these activities are properly trained, and adequate records are maintained. The Council recognises the importance of ensuring that all staff are aware of money laundering requirements and the risks it poses to the organisation and it will ensure that guidance is readily available and communicated across all areas within the Council.

### **TMP 10 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 Council will ensure that Councillors are also provided with adequate training and guidance to enable them to undertake their duties in respect of treasury management. The Executive Director of Corporate Services will recommend and implement the necessary arrangements.

### **TMP 11 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. Service providers will be subject to full evaluation in terms of 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 Executive Director of Corporate Services.

### **TMP 12 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 Executive Director of Corporate Services are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director of Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Executive Director of Corporate Services 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.

**7 - DUNDEE CITY COUNCIL TREASURY RISK REGISTER**

<b>DETAILED RISK ANALYSIS</b>					
	<b>Risk Title</b>	<b>Risk Factors</b>	<b>Potential Effect</b>	<b>Potential Outcome</b>	<b>Control Measures / Mitigation</b>
1	Loss of capital due to counterparty collapse	The Council loses its principal investment or investment becomes impaired	Counterparty collapses or faces a financial crisis rendering it unable to repay investments	<ul style="list-style-type: none"> <li>The Council may suffer financial loss</li> <li>The repayment of funds from the counterparty could be significantly delayed or impaired</li> </ul> <p>Either of these outcomes could have an adverse impact on operational funding levels</p>	<p>Per the Treasury Management Strategy:</p> <ul style="list-style-type: none"> <li>Maximum investment value on approved counterparties in order to spread and reduce risk.</li> <li>Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded.</li> <li>Counterparties are also monitored and reviewed continuously</li> <li>Limiting the threshold rating for approval of counterparties.</li> </ul>
2	Decline / rise in interest rates	Interest rates continue to remain at an all-time low with very little movement.	<ul style="list-style-type: none"> <li>No change to bank rate and associated market investment rates.</li> <li>Lower risk counterparties not offering competitive rates.</li> </ul>	<ul style="list-style-type: none"> <li>The Council may not achieve its target level of interest for budgetary purposes.</li> <li>Impact on revenue budget resulting in mandatory efficiencies affecting service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Arranging longer term investments where investment objectives and criteria allows in order to capitalise on higher rate of returns without risk of opportunity cost.</li> <li>Offsetting the loss of interest income by undertaking refinancing loans at lower rates than previously undertaken as opportunities arise.</li> </ul> <p>The Council continually monitors bank rate and rates being achieved against budget to ensure it has secured the best value possible in the challenging economic climate.</p>
3	Fraudulent activity	Potential fraud by staff	Fraudulent activity	<ul style="list-style-type: none"> <li>Financial loss to the Council as a direct</li> </ul>	<ul style="list-style-type: none"> <li>Segregation of staff duties.</li> <li>Review and monitor of internal controls</li> </ul>

				<p>consequence of fraudulent activity</p> <ul style="list-style-type: none"> <li>• Loss of money for the Council Disciplinary action for the staff involved</li> <li>• Reputational damage</li> </ul>	<p>to ensure the correct protocol across all relevant areas is being followed.</p> <ul style="list-style-type: none"> <li>• Ensure all insurance policies and relevant guarantees (Fidelity £2m per individual circumstance - £1m for an individual employee) are fully up to date.</li> </ul>
4	Money laundering	Money laundering by external parties	External parties pay a transaction by cash and subsequently request a refund	<ul style="list-style-type: none"> <li>• Fine and/or imprisonment</li> <li>• Reputational damage</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure the money laundering policy is reviewed and up to date.</li> <li>• Reconcile refunds back to source of income.</li> <li>• Raise awareness of this issue amongst staff</li> <li>• Review requirements of financial regulations.</li> </ul>
5	Network Failure / banking system being inaccessible	The Council is unable to carry out its daily treasury functions due to a network failure	RBS Bankline is unavailable or the Council's network has failed	Daily Treasury functions will not be carried out	Invoke the business continuity plan to minimise the effects of a network issue.
6	Revenue Budgets	Revenue budgets are unable to meet borrowing costs of capital schemes	Revenue budgets come under pressure from restricted government funding or non delivery of programmed savings	The Council may not be able to execute some desired projects	<ul style="list-style-type: none"> <li>• Revenue budgets monitored on monthly basis and future year forecasts undertaken.</li> <li>• Reserve some capital receipts to cover borrowing costs in the short term.</li> <li>• Ensure monthly financial reports and Forecasts are produced and analysed.</li> </ul>
7	Lack of suitable counterparties	The Council does not have enough "space" with approved counterparties to place investments/deposit surplus cash balances.	Rising cash balances and a restricted counterparty list	Use of counterparties not paying best value rates.	The Council continually monitors its approved counterparty listing in conjunction with cash balances. Any potential new investment opportunities are discussed at Treasury Management performance meetings. The Council uses call accounts and money market funds to deposit surplus

					<p>cash balances in the event of no space with other counterparties and also to ensure there is always cash instantly available in order to meet payment obligations when they fall due.</p> <p>However, there are also limits on the amounts deposited to such funds. The Council has a facility to deposit cash with the Debt Management Office should all other investment options be exhausted.</p>
8	Lack of expertise of Committee or amongst officers	Lack of training and continuous professional development.	Detrimental decisions made in relation to financial investment management.	Financial consequence	<ul style="list-style-type: none"> <li>• Provision of training</li> <li>• External investment advice</li> <li>• Consultation with peer groups.</li> </ul>
9	Over reliance on key officers	Specialist nature of work means there are relatively few experts in this field	If an officer leaves or falls ill knowledge gap may be difficult to fill.	Detrimental decisions made in relation to financial investment management.	<ul style="list-style-type: none"> <li>• Key officers transfer specialist knowledge to colleagues.</li> <li>• Procedures &amp; guidance available.</li> <li>• In the short-term advice can be sought.</li> </ul>

