

POLICY AND RESOURCES SCRUTINY COMMITTEE – 5TH OCTOBER 2010

**SUBJECT: CIPFA CODE OF PRACTICE FOR TREASURY MANAGEMENT IN THE
PUBLIC SERVICES 2009**

REPORT BY: DEPUTY CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To advise Members of the details of Treasury Management Practices (TMPs) applicable to this authority contained in the new Code of Practice for Treasury Management in the Public Services 2009 (the Code).

2. SUMMARY

- 2.1 Caerphilly County borough Council is committed to the principle of openness and transparency in its treasury management function. It previously adopted the CIPFA “Code of Practice for Treasury Management in the Public Services” (the Code) in March 2004. The Code has subsequently been revised following the Icelandic situation in 2008 and the Revised CIPFA Treasury Management Code of Practice 2009 must now be formally adopted.
- 2.2 The report lays out the main elements of the Code, but due to the complexity of the subject matter, it is felt that the additional detailed schedules which relate to the Treasury Management Practices should be presented as a separate report to the next meeting of the Committee.

3. LINKS TO STRATEGY

- 3.1 The report has links to the four basic strategic themes of the Council, taking into account cross-cutting issues where relevant. It has specific links to the effective and efficient application and use of resources.

4. THE REPORT

4.1 Key Principles

4.1.1 Key Principle 1

Public service authorities should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

4.1.2 Key Principle 2

Their 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 their authorities. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds.

4.1.3 Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible authorities to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

4.2 Clauses to be formally adopted

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

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

- (a) a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- (b) 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.

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 authority. Such amendments will not result in the authority materially deviating from the Code's key principles.

4.2.2 This authority 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.

4.2.3 This authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to **Policy & Resources Scrutiny Committee** and for the execution and administration of treasury management decisions to **Head of Corporate Finance**, who will act in accordance with the authority's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*.

4.2.4 This authority nominates the **Policy & Resources Scrutiny Committee** to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4.3 The Treasury Management Policy Statement

CIPFA recommends that an authority's treasury management policy statement adopts the following forms of words to define the policies and objectives of its treasury management activities:

4.3.1 This authority 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.

- 4.4 This authority 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 authority.
- 4.5 This authority 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

5. TREASURY MANAGEMENT PRACTICES

The revised Treasury Management Practices as prescribed by the Revised CIPFA Treasury Management Code of Practice 2009 set out the manner in which the Authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Authority, 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

5.1 TMP1 – Risk Management

The responsible officer 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, 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 the schedule to this document.

5.1.1 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 authority 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 authority's capital or current (revenue) resources.

This authority 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 institutions 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 institutions from which it may borrow, or with whom it may enter into other financing arrangements.

5.1.2 Liquidity Risk Management

This is the risk that funds will not be available when required, ineffective management of liquidity creates additional unbudgeted costs, and the authority's business/service objectives could, as a result, become compromised.

This authority 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 to it which are necessary for the achievement of its business/service objectives. This authority will only borrow in advance of need where there is a proven business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

5.1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the authority's finances, against which the authority has failed to protect itself adequately.

This authority 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 as amended in accordance with TMP6 'Reporting requirements and management information arrangements'.

It will achieve this 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, potential advantages changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

5.1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the authority's finances, against which the authority has failed to protect itself adequately.

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

The Authority will always strive to ensure that exposure to fluctuations in exchange rate is kept to a minimum. At present very few transactions are undertaken in currencies other than sterling, therefore the exposure is minimal. All treasury management transactions are carried out in sterling.

5.1.5 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the authority for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This authority 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 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 overreliance on any one source of funding if this might jeopardise achievement of the above.

5.1.6 Legal and Regulatory Risk Management

The risk that the authority itself, or an authority with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the authority suffers losses accordingly.

This authority 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[1] 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.

This authority 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 authority.

5.1.7 Fraud, Error and Corruption, and Contingency Management

The risk that an authority fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This authority 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.

5.1.8 Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an authority borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This authority 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.

5.2 **TMP 2 - Performance Management**

CIPFA advocates the principle that all public service authorities should create appropriate methods by which the performance of their treasury management activities can be measured. They can thereby help to judge whether they are gaining value for money from the resources devoted to these activities, particularly in meeting their wider business and service objectives.

This authority is committed to the pursuit of value for money 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 authority's stated 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.

Currently this authority measures performance for borrowing and lending against target rates proposed at the time the budget is prepared and against similar authorities through the CIPFA Benchmarking Club. However, actual results are affected by the degree of risk aversion inherent in the authority's Annual Strategy.

5.3 TMP 3 - Decision-Making And Analysis

This authority 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 to this document.

5.4 TMP 4 - Approved Instruments, Methods And Techniques

This authority 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 TMP1 Risk management.

5.5 TMP 5 - Authority, Clarity and Segregation of Responsibilities, and Dealing Arrangements

This authority 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 responsible officer 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 responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

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

5.6 **TMP 6 - Reporting Requirements and Management Information Arrangements**

This authority will ensure that regular reports are prepared and considered on 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 authority (i.e. full Council) will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- 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 authority's treasury management policy statement and TMPs.

The committee/council will receive regular monitoring reports on treasury management activities and risks.

The body responsible for scrutiny, such an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are detailed in the schedule to this document.

5.7 **TMP 7 - Budgeting, Accounting and Audit Arrangements**

The responsible officer will prepare, and this authority will approve and, if necessary, from time to time will 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 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 TMP1 *Risk Management*, TMP2 *Performance Measurement*, and TMP4 *Approved Instruments, Methods and Techniques*.

The responsible officer 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*

This authority 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 at the time.

5.8 **TMP 8 - Cash and Cash Flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this authority will be under the control of the responsible officer, 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 responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *Liquidity Risk Management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

5.9 **TMP 9 - Money Laundering**

This authority 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. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

5.10 TMP 10 - Training and Qualifications

This authority 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 responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

5.11 TMP 11 - Use of External Service Providers

This authority recognises that responsibility for treasury management decisions remains with the authority at all times. It recognises that there may be potential value in 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 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 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 overreliance 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 responsible officer, and details of the current arrangements are set out in the schedule to this document.

5.12 TMP 12 - Corporate Governance

This authority 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 authority has adopted and has implemented the key principles 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 responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

6. FINANCIAL IMPLICATIONS

6.1 This report deals with financial matters.

7. PERSONNEL IMPLICATIONS

7.1 There are no personnel implications.

8. RECOMMENDATIONS

8.1 Members are asked to note the report and to forward to Council for formal adoption.

9. REASONS FOR THE RECOMMENDATIONS

9.1 Compliance with the CIPFA “Code of Practice for Treasury Management in the Public Services”.

10. STATUTORY POWER

10.1 Local Government Acts 1972 and 2003.

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Background Papers:

Treasury Management Working Papers – Accountancy Section

CIPFA “Code of Practice for Treasury Management in the Public Services”

The Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2004