

**TREASURY MANAGEMENT PRACTICES**

**2013/2014**

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# **TMP 1 Risk Management**

## **General Statement**

Deputy Chief Executive (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 authority's objectives in this respect. This will be done 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 that seek to ensure compliance with these objectives are set out in the schedules to this document.

## **Credit and Counterparty Risk Management**

The Council 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 investments 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.

## **Liquidity Risk Management**

The Council will ensure it has adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the levels of funds available to it which are necessary for the achievement of its business/service objectives. The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

## **Interest Rate Risk Management**

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements 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. This should be subject to the consideration, and, if required, approval of any policy or budgetary implications.

## **Exchange Rate Risk Management**

Not relevant to this authority.

## **Refinancing Risk Management**

The Council will ensure that its borrowing, private financing and partnership arrangements need to be 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 Council 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.

## **Legal and Regulatory Risk**

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under 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 Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

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

The 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.

## **Market Risk Management**

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP 2 Performance Measurement**

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

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. There will be a regular review of the scope for potential improvements. The performance of the treasury management function will be measured using the criteria set out in separate working schedules maintained by the Deputy Chief Executive (Finance).

## **TMP 3 Decision Making and Analysis**

This Council will maintain records of its major 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 separate working schedules maintained by the Deputy Chief Executive (Finance).

## **TMP 4 Approved Instruments, Methods and Techniques**

This Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in separate working schedules maintained by the Deputy Chief Executive (Finance) and within the limits and parameters defined in *TMP1, Treasury Risk Management*.

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

The Council considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud and 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 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 the implementing and controlling of 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 the Council intends as a result of lack of resources or other circumstances to depart from these principles, the Deputy Chief Executive (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 Deputy Chief Executive (Finance) will ensure that clear and written statements of the responsibilities of each post engaged in treasury management and the arrangement of absence cover. The present arrangements are detailed in separate working schedules maintained by the Deputy Chief Executive (Finance).

The Deputy Chief Executive (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 Deputy Chief Executive (Finance).

The Deputy Chief Executive (Finance) will fulfil all such responsibilities in accordance with the Council's Treasury Management Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

## **TMP 6 Reporting Requirements and Management Information Arrangements**

The 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 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 Audit Committee 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 noncompliance with the Council's treasury management policy statement and TMPs;

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

The audit committee, will have responsibility for the scrutiny of treasury management policies and practices.

Local authorities should report the treasury management indicators as detailed in their sector – specific guidance notes.

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

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

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

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

## **TMP 8 Cash and Cash flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the Deputy Chief Executive (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 Deputy Chief Executive (Finance) will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *Liquidity Risk Management*.

## **TMP 9 Money Laundering**

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

### **9.1 Procedures for Establishing Identity/Authenticity of Lenders**

The Council will not accept loans from individuals. All loans will be obtained from the Public Works Loan Board, other local authorities, or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA web site on [www.fsa.gov.uk](http://www.fsa.gov.uk).

When repaying loans, the procedures in 9.2 below will be followed to check the bank details of the recipient.

### **9.2 Methodologies for Identifying Deposit Takers**

In the course of its treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its Approved Lending List. All transactions will be carried out by BACS, for making deposits or repaying loans.

The Deputy Chief Executive (Finance) and the Financial Services Manager are conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure that relevant staff are appropriately informed so that they are alert for suspicious transactions.

The Council have appointed the Deputy Chief Executive (Finance) to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated, as far as the Council is in a position to do so, or it is appropriate for the Council to do so and, if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

## **TMP 10 Training and Qualifications**

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

The Deputy Chief Executive (Finance) will ensure the Finance Review and Audit Committee members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and their responsibilities.

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

## **TMP 11 Use of External Service Providers**

The Council recognises the responsibility for treasury management decisions remains with the Council 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 also 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 and re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements rests with the Deputy Chief Executive (Finance).

The Council's Treasury consultants are:

### **Sector Treasury Services Ltd**

1<sup>st</sup> Floor  
40 Duke's Place  
London  
EC3A 7NH  
Tel: 0871 664 6800

Cost of Service: £7,500 per annum

### **Sector Treasury Services undertakes to:**

- 1.** Attend two strategy meetings a year to review the Client's financial position having regard to its objectives, strategy, current financial circumstances, assets and liabilities.
- 2.** Provide interest rate forecasts and advise the Client on the formulation of suitable borrowing and investment strategies utilising the strategic options available to it appropriate to the Client's financial objectives.
- 3.** Provide regular updates on economic and political changes which may impact on and require modification to the Client's borrowing and investment strategies.
- 4.** Provide forecasts of movements in PWLB rates which affect the timing of funding with fixed rate debt, conversion of variable rate debt to fixed and the conversion of fixed rate debt to variable.
- 5.** Advise on debt rescheduling, funding policy, volatility and maturity profile analysis.
- 6.** Provide information and prudent parameters in respect of investment counterparty creditworthiness, which information and parameters are based on information from one or more of the UK's leading credit rating agencies, various other analysts as appropriate and associations. Reports and analyses to be provided weekly or when practicable.

7. Provide one day's onsite officer training to treasury management staff and two places at each of Sector's usual training seminars for client staff per annum. (Sector aims to accommodate all who wish to attend. However, availability will be limited to venue capacity and spaces will be allocated on a 'first come, first served' basis.)

8. Access to the Sector client website for Technical bulletins and copies of our standard template documents for:

- treasury management strategy report
- annual review report
- treasury management policy statement
- treasury management practices
- adoption of CIPFA Code of Treasury Management
- annual investment strategy

9. Direct access to our Technical Advisory Group. This is based on a "reasonable" basis, but if a query needed more research, writing of reports or attendance at meetings, Sector reserve the right to charge an additional fee.

## **TMP 12 Corporate Governance**

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

This Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Deputy Chief Executive (Finance) will monitor and, if and when necessary, report upon the effectiveness of these arrangements.