



CABINET – 6 FEBRUARY 2002

PORTFOLIO: FINANCE AND SUPPORT

CORPORATE AND FINANCE REVIEW PANEL – 21 MARCH 2002

TREASURY MANAGEMENT IN THE PUBLIC SERVICES: CODE OF PRACTICE

1. INTRODUCTION

- 1.1 Section 45 of the Local Government and Housing Act 1989, requires Councils to determine several fundamental items of financial policy for at least the ensuing year.
- 1.2 The CIPFA Code of Practice on Treasury Management in Local Authorities 1992 (revised 1996), recommends that each Council give formal approval to a treasury management policy statement, which is broader in scope than the specific requirements of the 1989 Act.
- 1.3 Once adopted, the policy statement becomes the key document for the Council and the Director of Resources in the operation, review and performance assessment of treasury management.
- 1.4 This Council formally adopted a treasury management policy statement at the meeting of the Policy & Resources Committee on 21 October 1992.
- 1.5 A new CIPFA Code of Practice was released in December 2001. CIPFA recommends that all public service organisations adopt, as part of their standing orders and financial regulations, specific clauses and key recommendations in accordance with the new Code.
- 1.6 Other than the increased emphasis on risk, there are no fundamental differences between the existing Code of Practice and the new Code. The main difference is presentation and documentation.
- 1.7 However, Council's must implement the identified differences in order to comply with the new Code and therefore be in a position to say they have adopted the new Code prior to 1 April 2002.

2. DIFFERENCES BETWEEN THE OLD CODE AND THE NEW CODE

- # 2.1 The old Code consists of a Treasury Management Policy Statement that incorporates the Definition of the Approved Activities of the Treasury

Management Operation with the practices undertaken to meet the policy objectives (see appendix 1).

- 2.2 The new Code splits the Treasury Management Policy Statement into two new documents (see Key Recommendation 4 at paragraph 3.1.4 below):
 - 2.2.1 A new treasury management policy statement. This statement is very brief and defines the policy and objectives of the Council's treasury management activities.
 - 2.2.2 A new document detailing treasury management practices. This is similar to the old Treasury Management Policy Statement but is presented in a different format.
- 2.3 The new Code also recommends the formal adoption of four Clauses.

3. CLAUSES TO BE FORMALLY ADOPTED

There are four clauses to be formally adopted as recommended by the new code

3.1 Clause 1

This Council adopts the key recommendations of CIPFA's *Treasury Management in the Public Services: Code of Practice* as follows:

3.1.1 Key Recommendation 1

The Council 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.

3.1.2 Key Recommendation 2

The Council's policies and practices make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.

3.1.3 Key recommendation 3

The Council should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations 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.

3.1.4 Key Recommendation 4

In order to achieve the key recommendations above, the Council should:

- # a) Adopt a treasury management policy statement, as recommended by the code (see appendix 2).
- # b) Follow the recommendations of the code concerning the creation of Treasury Management Practices (see appendix3).

Clause 1 is currently attained by the adoption of the old Code and the regular reports on treasury management issues.

3.2 Clause 2

3.2.1 Accordingly, this Council will create and maintain, as the cornerstones for effective treasury management:

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

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

Clause 2 is currently attained by the adoption of the old Treasury Management Policy Statement and the adherence to the issues determined in the statement.

3.3 Clause 3

The Council will receive reports on the treasury management policies, practices and activities, including as a minimum, an annual strategy plan in advance of the year, and an annual report after the year-end, in the form prescribed in the TMPs.

Clause 3 is currently attained by the reporting to the Corporate and Finance Review Panel of the activities of the treasury operation, and to Cabinet of any treasury management policy changes. An annual strategy plan and annual activity report are already reported each year.

3.4 Clause 4

- 3.4.1 The Council delegates responsibility for the implementation of its treasury management policies and practices to Cabinet, and monitoring of the treasury management function to the Corporate Finance and Review Panel.
- 3.4.2 The execution and administration of treasury management decisions is delegated to the Director of Resources, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

Clause 4 reflects the current situation in respect of the reporting, monitoring and administration of the treasury management function.

4. ENVIRONMENTAL IMPLICATIONS

- 4.1 There are no environmental implications arising from this report.

5. CRIME AND DISORDER IMPLICATIONS

- 5.1 There are no crime and disorder implications arising from this report.

6. CONCLUSIONS

- 6.1 CIPFA have produced a new code for the treasury management function.
- 6.2 CIPFA recommend that four clauses should be adopted as part of the Councils standing orders and financial regulations.
- 6.3 A new treasury management policy statement should also be adopted.
- 6.4 Treasury management practices should be adopted in principle.

7. RECOMMENDATION

It is recommended that members:

- 7.1 Approve the adoption of the four clauses as recommended by the new Code.
- 7.2 Adopt the Treasury Management Policy Statement as appendix 2.
- 7.3 Note that treasury management practices will be determined, in full, and reported back to cabinet for approval.

Further information

Background Papers

Please contact Jan Hawker
Treasury Management Accountant, Ext. 5722.
email: jan.hawker@nfdc.gov.uk

Treasury Management in the
Public Services – Code of
Practice & Guidance Notes
Publish Papers

[jsh/treasury management report re code of practice/Feb2001](#)

NEW FOREST DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1. DEFINITION OF THE APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

- 1.1 Responsibility for the activities of the treasury management operation has been delegated to the Director of Finance.
- 1.2 The approved activities of the treasury management operation cover the following:
 - a. analysing internal and external information, cash flow management and methods of transmitting money, i.e. by cheques, bank transfers, Bank Automated clearing system (BACS), Clearing House Automated Payments System (CHAPS) and Direct Debit.
 - b. investing temporary surpluses in approved investments and financing capital expenditure by approved borrowing instruments.
 - c. ensuring that the repayment dates for the Council's borrowing are reasonably spread out. i.e. the borrowing profile.
 - d. dealing with other financial institutions such as brokers, banks, the Public Works Loan Board. (PWLB)
 - e. centralising the treasury management operation within the finance directorship.
 - f. reviewing and proposing strategies to Members on treasury management operations.
 - g. ensuring that effective security and controls are in place and an effective operation is reviewed and adhered to.
 - h. establishing and monitoring the performance of the treasury management operation.
 - i. ensuring that adequate banking arrangements are made and monitored for the Council.
 - j. selecting and appointing professional external investment fund managers and monitoring and reviewing the performance of the funds against agreed benchmarks.

2. FORMULATION OF TREASURY MANAGEMENT STRATEGY

- 2.1 The Council will formulate a strategy that covers the raising of capital finance, investment of surplus money and managing cash flow both externally and between the Council's funds as appropriate. Treasury management activities in the year should be conducted in accordance with the strategy

3 APPROVED METHOD OF RAISING CAPITAL FINANCE

- 3.1 The following list specifies which borrowing instruments the Council may adopt:

PWLB
Money Market Loans - Long Term
Money Market Loans - Temporary (loans up to 364 days)
Local temporary borrowing
Local Bonds
Bank Overdraft
Negotiable Bonds
Stock Issues
Council's own internal funds (capital receipts and revenue balances)
Commercial paper
Medium term Notes
Leasing
Deferred Purchase
Bills

- 3.2 No other instrument other than those listed above may be used.

4. DEFINITION OF APPROVED SOURCES OF BORROWING

- 4.1 The following list specifies which borrowing instruments the Council will use:

PWLB	Council's own internal funds
Market long-term borrowing	Leasing
Market temporary borrowing	Charities or Individuals
Bank Overdraft	

- 4.2 Paragraph 12, Schedule 2 of the Banking Act 1987 exempts local authorities from the need for Bank of England authorisation to take deposits

5. APPROVED INSTRUMENTS FOR INVESTMENTS

- 5.1 The following instruments may be used for investments:

Externally Managed Funds	Internal Loans
Fixed Deposits	Gilts
Call/Notice Deposits	Certificates of Deposit

- 5.2 No other instruments other than those listed above may be used.

- 5.3 All investments in the above instruments are made in Sterling.

6. DEFINITION OF APPROVED ORGANISATIONS FOR INVESTMENTS

The following organisations constitute the counterparties with whom temporary investments will be made. These are in line with treasury consultant's recommendations and in most cases are more restrictive.

6.1 Banks incorporated within the United Kingdom

Banks which are UK clearing banks or which are incorporated in the UK and which have at least a short term credit rating of F1, according to FITCH The International Rating Agency, will be used for temporary investments

A short-term credit rating of F1 and a long-term credit rating of A can borrow up to £5M for 364 days

A short-term rating of F1 only can borrow up to £3m for 185 days

6.1.1 Examples of the banks that meet the above criteria are as follows: -

Abbey National PLC	HSBC
Alliance & Leicester PLC	Lloyds Bank PLC
Bank of Scotland PLC	National Westminster Bank PLC
Barclays Bank PLC	Northern Rock PLC
Bradford & Bingley PLC	Royal Bank of Scotland
Citibank International	Standard Chartered Bank PLC
HFC Bank PLC (GDS)	Sun Bank PLC
Halifax PLC	Woolwich PLC

6.2 Foreign Banks

Foreign Banks that have at least a short term credit rating of F1 and a long term credit rating of A+, according to FITCH The International Rating Agency, will be used for temporary investments of up to £3M for 185 days.

6.2.1 Examples of the banks that meet the above criteria are as follows: -

Allied Irish Banks	Dresdner Bank
Banco Bilbao Vizcaya	Hamburgische Landesbank
Bank of Ireland	Irish Intercontinental Bank
BHF Bank	KBC Bank
Banque Internationale a Luxembourg	Norddeutsche Landesbank Girozentrale
Bayerische Landesbank Giro.	National Bank of Canada
Credit Agricole Indosuez	National Australia Bank
Depfa Bank Europe	Svenska Handelsbanken
Deutsche Bank	Toronto Dominion Bank

6.3 Building Societies

The Council may invest in the top 40 Building Societies according to credit rating and asset size.

Building Societies with a short term rating of F1, according to FITCH The International Rating Agency, can borrow up to £5M for 364 days.

Other building societies in the top 25 by asset size can borrow up to £5M for 185 days.

Buildings Societies ranked 26 to 40 by asset size can borrow up to £3M for 95 days.

6.3.1 Examples of building societies that meet the above criteria are as follows:-

Britannia	Marsden
Cambridge	National Counties
Chelsea	Newcastle
Cheshire	Nationwide
Coventry	Newbury
Cumberland	Norwich & Peterborough
Darlington	Nottingham
Derbyshire	Portman
Dunfermline	Principality
EBS	Progressive
Furness	Saffron Walden
Hinckley & Rugby	Scarborough
ICS	Skipton
Kent Reliance	Staffordshire
Lambeth	Stroud & Swindon
Leeds & Holbeck	West Bromwich
Leek United	Universal
Market Harborough	Yorkshire

6.4 Other Merchant Banks

Merchant banks which have at least a short term credit rating of F1, according to FITCH The International Rating Agency, will be used for temporary investments of up to £3M for 185 days.

6.4.1 Examples of the banks that meet the above criteria are as follows: -

Lazard Brothers & Co.

Morgan Grenfell & Co. Ltd

6.5 Other Local Authorities

The Council may invest temporarily with all other local authorities. The maximum each one may borrow is £5M for up to 364 days.

6.6 Nationalised Industries and Public Corporations

The Council may invest with all bodies within this category. The maximum each one may borrow is £5M for up to 364 days.

6.7 Subsidiaries

The Council may invest with the wholly owned subsidiaries of those UK Clearing banks that have a short term rating of at least F1 and a long term rating of at least A according to FITCH The International Rating Agency.

The Council may invest with the wholly owned subsidiaries of any building societies and as such is guaranteed by the parent company under section 22 of the Building Societies Act 1986.

The maximum each one may borrow is £3m for 185 days.

6.7.1 Examples of the banks that meet the above criteria are as follows: -

Bank of Wales	HSBC Asset Management
British Linen Bank Ltd	Royscot Trust
Capital Bank PLC	TSB Scotland PLC
Girobank	Ulster Bank
Hong Kong Investment Bank	

6.8 Maximum Investment

No more than 20% of the current total sum temporarily invested may be deposited with any one organisation at any one time, unless the total temporary invested is less than £2.5m in which case the maximum investment is £0.5m.

6.9 Accidental Breach of Limits

The Council will operate “daylight exposure”. This is a technique that ensures that in no circumstances can limits be exceeded. Normally, in calculating the amount of investment for each day, treasury staff are entitled to assume that a sum due back from an organisation will be received on the due date before making a further investment with that organisation. If for some technical reason the repayment does not arrive in the Council’s bank account it is possible that, after a new investment is made with the same organisation, limits will be exceeded.

7. POLICY ON INTEREST RATE EXPOSURE

- 7.1 Section 45 of the Local Government and Housing Act 1989 requires the Council to fix the maximum proportion of interest on borrowing which is subject to variable rate interest before the commencement of each financial year. This policy will be set in the light of current interest rate forecasts and the Treasury Management Strategy.

8. POLICY ON EXTERNAL MANAGERS

- 8.1 The Council's policy is to appoint full time professional external investment fund managers, if estimated interest earnings can be increased.
- 8.2 This Council has addressed the question of delegation given that the following steps have been taken:
- the contractual agreement and documentation has been agreed
 - a performance target has been set
 - the fee payment basis has been agreed
 - the investment counterparty constraints have been set
 - the asset allocation parameters have been set
 - performance is reported quarterly and valuations given monthly
 - meetings with investment managers are held every six months
- 8.3 The existing agreements are regularly assessed and it is expected that the arrangements will be reviewed annually.

9. POLICY ON DELEGATION

- 9.1 The Director of Finance is authorised by the Council to exercise the investment and borrowing powers of the Council in accordance with Council Policy, The CIPFA Standard of Professional Practice on Treasury Management and professional codes of practice.
- 9.2 The Director of Finance may delegate the operations of Treasury Management to the Assistant Director of Finance - Corporate & Client Services, and subordinate staff in connection with the approved activities of Treasury Management.
- 9.3 Any changes to delegated powers should be reported to Policy and Resources Committee and if necessary to full Council.

10. REVIEW REQUIREMENTS AND REPORTING ARRANGEMENTS

- 10.1 The Director of Finance will report to the Corporate & Finance Review Panel on Treasury Management as follows: -

JUNE - for the annual report for the previous year.
DECEMBER - for the report for the first half year.
FEBRUARY - for the report for the first 9 months.

10.2 The Director of Finance will report to the Policy and Resources Committee on Treasury Management as follows:

FEBRUARY - for the strategy report for the next financial year.
- for the borrowing limits report for the next financial year.

10.3 The Director of Finance will report on the Treasury Management Code of Practice at the July Policy and Resources meeting each year.

10.4 Reporting requirements will need to be reviewed once the new democratic arrangements are formally adopted by the Council.

TREASURY MANAGEMENT POLICY STATEMENT

The Treasury Management Policy Statement defines the policies and objectives of the Council's treasury management activities.

The CIPFA Code of Practice recommends that Council approve the Treasury Management Policy Statement.

1. DEFINITION OF THE APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT FUNCTION

This Council defines its treasury management activities as:

The management of the Councils' cash flows, banking, money market and capital market transactions. The effective management of the risks associated with those activities: and the pursuit of optimum performance consistent with those risks.

2. THE ACKNOWLEDGEMENT OF RISK

This Council regards the successful identification, monitoring and management 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.

3. BEST VALUE IN TREASURY MANAGEMENT

This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

TREASURY MANAGEMENT PRACTICES

1. INTRODUCTION

- 1.1 The new CIPFA Code of Practice recommends that treasury management practices (TMPs) should be created.
- 1.2 These TMPs are similar to the existing Code's requirements but there are changes in the way the information is presented and the background information that should be provided.

2. TREASURY MANAGEMENT PRACTICES

- 2.1 It is recommended that the TMPs should be divided into the following headings. These cover the Council's treasury management powers and the scope of the treasury management activities.

TMP1. Risk management.

TMP2. Best value and performance measurement.

TMP3. Decision-making and analysis.

TMP4. Approved instruments, methods and techniques.

TMP5. Organisation, clarity and segregation of responsibilities, and dealing arrangements.

TMP6. Reporting requirements and management information arrangements.

TMP7. Budgeting, accounting and audit arrangements.

TMP8. Cash and cash flow management.

TMP9. Money laundering.

TMP10. Staff training and qualifications.

TMP11. Use of external service providers.

TMP12. Corporate governance.

- 2.2 These TMPs will be reported, in full, in due course. This will include specific explanation and detail of the systems and routines to be employed and the records to be maintained.

