

# APPENDIX G

## WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 2 FEBRUARY 2010

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### Title:

#### **TREASURY MANAGEMENT – REVISED CODE OF PRACTICE**

**[Portfolio Holder: Cllr Mike Band]**

**[Wards Affected: All]**

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### Summary and purpose:

To consider the revised Code of Practice on Treasury Management produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the light of the revised Prudential Code for Capital Finance and the Audit Commission report on Risk and Return following the collapse of the Icelandic banks, and to adjust Council policies and processes as appropriate.

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### How this report relates to the Council's Corporate Priorities:

The treasury management function is critical to all Council services in that it ensures financial resources are available at the right time to deliver the Council's priorities and services.

### Equality and Diversity Implications:

Treasury management provides financial resources to support all services including those which promote equality and diversity.

### Resource/Value for Money implications:

A sound treasury management policy which achieves an appropriate balance between risk and return is essential to support service provision.

### Legal Implications:

The revised code supports the provisions of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and it is expected that local authorities will apply the code to their individual circumstances.

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### Introduction

1. The previous Treasury Management Code of Practice was last published in 2002 and was widely adopted by local authorities including Waverley. Since that time the Government have issued new capital finance regulations which allowed prudential borrowing and, more recently, the banking crisis has made for a review timely. Whilst the Council has updated its operational limits each year, with the publication of the new code, it is now appropriate for a comprehensive review of the policy and practice statements to be undertaken.

## **Definition of Treasury Management**

2. Treasury management is the management of the Council'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.
3. For Waverley Borough Council this means investing up to £40m in financial markets at any one time and borrowing up to £7m.

## **Purpose of the Code**

4. CIPFA has produced this Code and the accompanying guidance notes to help satisfy eight main purposes:
  - i. To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.
  - ii. To emphasise the overriding importance of effective risk management, as the foundation for treasury management in all public service bodies.
  - iii. To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.
  - iv. To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, *"to maintain and develop the professional competence of both themselves and those they supervise"*.
  - v. To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
  - vi. To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same,
  - vii. To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.
  - viii. To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

## **Key Principles**

5. The Code identifies three key principles which organisations should apply:

### Key Principle 1

Public service organisations 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.

### 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 organisations. 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.

### 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 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.

## **Updated Treasury Management Policy Statement**

6. CIPFA recommends that an organisation's treasury management policy statement adopts the following forms of words to define the policies and objectives of its treasury management activities:
  - Waverley Borough Council defines its treasury management activities as:  
*The management of the Council'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.*
  - Waverley Borough 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.
  - Waverley Borough 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 value for money in treasury management and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

## **Amendments to Standing Orders and Finance Regulations**

7. Clauses to be formally adopted - CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:
- i. Waverley Borough Council will create and maintain, as the cornerstones for effective treasury management:
    - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
    - Suitable treasury management practices (TMPs), setting out the manner in which the Council 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 the Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.
  - ii. The Council's Executive 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.
  - iii. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Deputy Chief Executive (Section 151 Officer) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
  - iv. Waverley Borough Council nominates the Corporate Overview & Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **Treasury Management Practices**

8. The revised code expects authorities to update treasury management practices. These are covered in Annexe 1.

## **Conclusion**

9. Waverley has applied the previous Treasury Management Code of Practice and is keen to update its practices and processes in the light of the latest guidance which the new code provides.

## **Recommendation**

The Executive recommends to the Council that:

1. the revised Code of Practice be endorsed;
2. the Key Principles in paragraph 5 be agreed;
3. the Clauses in paragraph 7 be approved and Standing Orders and finance regulations be amended as appropriate; and
4. the Corporate Overview and Scrutiny be nominated as the committee responsible for scrutinising the treasury management function.

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### **Background Papers (DCEx)**

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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### TREASURY MANAGEMENT IN WAVERLEY BOROUGH COUNCIL

#### TREASURY MANAGEMENT PRACTICES (TMP)

#### TMP1 RISK MANAGEMENT

##### General Statement

The Deputy Chief Executive, (Section 151 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 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, will be set out in the schedule to be prepared by officers before 31<sup>st</sup> March 2010 and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive.

#### 1. Credit and Counterparty Risk Management

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

#### 2. Liquidity Risk Management

Waverley Borough Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

Waverley Borough Council 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 approved capital programme or to finance future debt maturities.

#### 3. Interest Rate Risk Management

Waverley Borough 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 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, 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 considered by the Executive as appropriate.

#### 4. Exchange Rate Risk Management

Waverley Borough Council's current approved policy assumes investments solely in GBP sterling and does not have an exchange rate risk management strategy at this time.

#### 5. Refinancing Risk Management

Waverley Borough Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to Waverley as can reasonably be achieved in the light of market conditions prevailing at the time.

Waverley 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.

#### 6. Legal and Regulatory Risk Management

Waverley Borough 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 Waverley, particularly with regard to duty of care and fees charged.

Waverley Borough 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 Council.

#### 7. Fraud, Error and Corruption, and Contingency Management

Waverley Borough 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.

## 8. Market Risk Management

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

### TMP2 PERFORMANCE MEASUREMENT

**Waverley Borough Council 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 Council'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 will be prepared by officers before 31<sup>st</sup> March 2010.and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive.

### TMP3 DECISION-MAKING AND ANALYSIS

Waverley Borough 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 processes and practices to be pursued in reaching decisions will be prepared by officers before 31<sup>st</sup> March 2010.and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive.

### TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Waverley Borough Council 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*.

### TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, ANDN DEALING ARRANGEMENTS

Waverley Borough 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 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 decision, 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 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 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 will be reconsidered by officers before 31<sup>st</sup> March 2010 and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive.

The delegations to the Deputy Chief Executive in respect of treasury management will be reconsidered by officers before 31<sup>st</sup> March 2010 and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive. The Deputy Chief Executive will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management*.

#### TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Waverley Borough 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 Executive will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- Quarterly monitoring reports on treasury management activities and risks.
- 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.

The Corporate Overview and Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and practices.

#### TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Deputy Chief Executive will prepare, and the Council 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 a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement* and TMP6 *Approved instruments, methods and techniques*. The Deputy Chief Executive 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*.

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.

#### TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Deputy Chief Executive, 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 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 will be reconsidered by officers before 31<sup>st</sup> March 2010. and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive.

#### TMP9 MONEY LAUNDERING

Waverley Borough 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, the Council 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, will be reconsidered by officers before 31<sup>st</sup> March 2010. and agreed with the Portfolio Holder for Finance and the Deputy Chief Executive.

#### TMP10 TRAINING AND QUALIFICATIONS

Waverley Borough 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 will recommend and implement the necessary arrangements.

The Deputy Chief Executive will ensure that Executive 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.

## TMP11 USE OF EXTERNAL SERVICE PROVIDERS

Waverley Borough Council recognises that responsibility for treasury management decisions remains with the Council at all times. The Council 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. The Council 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 Deputy Chief Executive. Currently, the Council does not employ any external service providers.

## TMP12 CORPORATE GOVERNANCE

Waverley Borough 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.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed for review as mentioned in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Deputy Chief Executive will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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