

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Corporate and Efficient Governance - 26 May 2010

Subject : Treasury Management Practices Update

1. Purpose

- 1.1 The purpose of this report is to ask Members to note the updated Treasury Management Practices (TMPs) of the Council.

2. Background

- 2.1 The CIPFA Code of Practice on Treasury Management ('the Code') was revised in November 2009. The Council's treasury activities are strictly regulated by statutory requirements and this Code.
- 2.2 The Code requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of the annual strategy is to explain both the risks, and the management of the risks, associated with the treasury service. This strategy was approved for 2010/11 to 2012/13 by Council on 24 March 2010.
- 2.3 The Code further required the Council to adopt an updated Treasury Management Policy Statement and to formally adopt four Treasury Management clauses as part of the Council's financial regulations. Both of these requirements were adopted by Council on 24 March 2010.
- 2.4 The first of the clauses (referred to in 2.3) above states that 'this Council will create and maintain, as the cornerstones for effective treasury management, suitable treasury management practices (TMPs)'.

3. Main Issues

- 3.1 The TMPs are used to set out how the Council will seek to achieve treasury management policies and objectives, and how it will manage, monitor and control those activities.
- 3.2 The Council has 12 main TMPs covering a variety of areas connected with the administration and management of the Treasury function – including: risk management, performance measurement, reporting, decision making, money laundering, budgeting, training, etc.
- 3.3 Following the recent revision of the Code (2.1 above), the TMPs have been reviewed and updated, where necessary. The revised TMPs are noted and described in Appendix 1 for Members' information.

3.4 The Council has delegated responsibility for the execution and administration of treasury management decisions to the Executive Director of Corporate Services, who will act in accordance with the Council's Treasury Policy Statement and TMPs; and with the CIPFA's Standard of Professional Practice on Treasury Management.

4. **People Implications**

4.1 There are none.

5. **Financial Implications**

5.1 There are none.

6. **Risk Analysis**

6.1 The main treasury risks are those as noted within the Appendix – TMP1.

7. **Equalities Impact Assessment**

7.1 No significant issues were identified in a screening for potential equality impact of this report.

8. **Conclusions and Recommendations**

8.1 The Council's Treasury Management Practices (TMPs) have been updated following the revision of the CIPFA Code of Practice on Treasury Management.

8.2 Members are requested to note the updated TMPs as detailed in Appendix I.

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Date: 7 May 2010

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Appendices: Treasury Management Practices

Background Papers: Prudential Indicators 2009/10 to 2012/13 and Treasury Management Strategy 2010/11 to 2012/13
– Council 24 March 2010

Wards Affected: All wards affected.



WEST DUNBARTONSHIRE COUNCIL

TREASURY MANAGEMENT PRACTICES (TMPS)

TMP1 Risk Management

General Statement

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 Council's objectives in respect of, all in accordance with the procedure 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.

[1] 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 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 financial arrangements.

[2] 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 level of funds available to it which are necessary for the achievement of its business/service objectives.

The 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 capital programme or to finance future debt maturities.

[3] 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 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 the subject to the consideration and, if required, approval of any policy or budgetary implications.

[4] Exchange Rate Risk Management

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

[5] Refinancing Risk Management

The Council will ensure that its borrowings, 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 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 overreliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and Regulatory Risk Management

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 Council.

[7] 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.

[8] 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 it will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

The 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 to 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 criteria set out in the schedule to this document.

TMP3 Decision Making and Analysis

The Council will maintain full records of its treasury 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.

TMP4 Approved Instruments, Methods and Techniques

The 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, and Dealing Arrangements

The 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 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 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 responsible officer 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 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 Council's policy statement and TMP's and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 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 budgeting, 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 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 Council's treasury management policy statement and TMP's.

The Corporate and Efficient Governance Committee will receive:

- Regular monitoring reports on treasury management practices and procedures

The Audit and Performance Review Committee will have responsibility for the scrutiny of treasury management policies and practices.

The Council will report the treasury management indicators as detailed in local authority specific guidance notes.

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

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer 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 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 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 this Council 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 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.

TMP9 Money Laundering

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

TMP10 Training and Qualifications

This 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 appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that Council members including members of the Audit and Performance Review Committee 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

This Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value of 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 will 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 subject to regular review. And it will ensure where feasible and necessary, that the 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 are set out in the schedule to this document.

TMP12 Corporate Governance

This Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establish 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, 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.