

TREASURY MANAGEMENT

FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
 - 2 Treasury management is an important function in every organisation, whether in the public or the private sector and whatever the size and nature of its businesses or remit.
 - 3 Treasury management can make a significant contribution to supporting the achievement of an organisation's business and service goals. The precise nature of this contribution will depend largely on the type of organisation concerned, the statutory and regulatory regimes under which it operates, and the scope, complexity and objectives of its treasury-management function.
 - 4 The implications of ineffective treasury management range from shortfalls in interest earnings on cash surpluses to potentially substantial losses through poor management controls over market dealings.
 - 5 The results may be highly damaging, not only to the organisation itself but also to the professional reputations of those individuals charged with responsibility for the treasury-management function.
 - 6 In respect of the relationship between this SoPP and the Institute's Code of Practice for Treasury Management in the Public Services (the 'TM' Code), the following should be noted:
 - (a) The SoPP applies to individual CIPFA members, whereas the TM Code applies to any organisation that has adopted it as part of its standing orders, financial regulations or other formal documents appropriate to its circumstances.
 - (b) Non-compliance with the TM Code by a CIPFA member while employed by, or undertaking work for, an organisation that has adopted the TM Code may be considered as a material factor in any disciplinary action under the Institute's bye-laws.
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INTRODUCTION

Applicability

- 6 Although much of this SoPP is directed towards members in the public services, it is applicable to all members who are responsible for treasury management.

Scope

- 7 Treasury management includes the management of cash flows, 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. This definition is intended to embrace an organisation's use of capital and project financings, borrowing, investment, and hedging instruments and techniques.

Objectives

- 8 Commercial organisations may properly anticipate that, within appropriate risk exposure criteria, their treasury-management activities will make a contribution towards their profits or surpluses. On the other hand, the essentially more cautious nature of many organisations, particularly those in the public services, will lead to the focus of treasury management falling largely on the effective control of risk.
- 9 Whatever the organisation, the achievement of optimum performance consistent with its risk exposure criteria in its treasury management activities is an important indicator of effective corporate management.

KEY PRINCIPLES

Treasury management within the wider business and service objectives

- 10 **Within the framework of the responsibilities placed upon them, members involved in an organisation's treasury management should take all reasonable steps to ensure that they and their staff undertake their treasury management duties at all times:**
 - **In a professional manner as defined in this SoPP.**

- **To facilitate the delivery of their employing organisation's treasury-management policies and objectives.**
- **To help the organisation achieve its wider business and service goals.**

Guidance

- 11 Directors of finance whose employing organisations are within the public services should take all reasonable steps to ensure that the key recommendations in CIPFA's Code of Practice for Treasury Management in the Public Services are adopted in full.
- 12 Directors of finance should ensure that they and their staff are:
- 12.1 At all times competent and equipped with the necessary skills and training to enable them to fulfil their particular treasury-management roles and responsibilities effectively.
- 12.2 Conversant with the legal and regulatory issues affecting the treasury management activities of their employing organisation.
- 13 The CIPFA Code of Practice for Treasury Management in the Public Services provides further guidance on this and the following principles.

Treasury management budgeting and accounting

- 14 **Directors of finance should ensure that:**
- **Budgets are prepared, considered and approved for the treasury management function.**
 - **The results of treasury management decisions and transactions are properly recorded and accounted for.**
 - **The above are undertaken in accordance with appropriate accounting practices and standards, and within statutory and regulatory requirements.**

Guidance

- 15 Directors of finance should ensure that they and their staff are conversant with the market practices, instruments and techniques available to their employing

organisation, and use them in a manner appropriate for the purpose of achieving high standards of treasury-management performance.

Treasury management decision-making and analysis

- 16 **Directors of finance should ensure that within the policy and procedural framework of their employing organisations, systems exist which:**
- **Enable treasury management decisions to be subjected to rigorous analysis.**
 - **Allow those responsible for such decisions to identify, measure and fully understand the implications of those decisions, particularly with regard to the risks to the organisation.**
- 17 **Directors of finance should ensure that treasury-management decisions are properly documented and recorded for their employing organisations, to enable:**
- **Lessons to be learned and applied for the future benefit of the organisation.**
 - **Records to be maintained of past decisions, to establish the processes by which particular decisions were taken.**

Guidance

- 18 Directors of finance should ensure that:
- 18.1 Presentations of information on which treasury-management decisions are to be taken reflect the principles of trustworthiness, honesty, truthfulness and objectivity.
- 18.2 Their employing organisation's treasury-management policies and practices accurately reflect the legal and regulatory regimes under which the organisation operates.
- 18.3 They review the organisation's treasury-management policies and practices on a regular basis with a view to identifying ways of minimising the risks of losses through improved checks and safeguards and through clarity and segregation of responsibilities and dealing procedures.

- 18.4 The execution of the organisation's treasury-management decisions is in accordance with the organisation's policies and practices.

Treasury management reporting and review

19 **Directors of finance should ensure that:**

- 19.1 **Reporting and management information arrangements are appropriate in terms of relevance and transparency for both proper decision-making and the subsequent review of the performance and value of the treasury management function. Where appropriate, this should take into account the general principles for information within the *Financial Reporting SoPP*.**
- 19.2 **The treasury management function is subjected to regular review to enable those with responsibility for setting policies and procedures to appreciate, evaluate and – if appropriate – implement opportunities for improving the value of the treasury management function.**

Guidance

20 Directors of finance should ensure that:

- 20.1 They and their staff are conversant with the organisation's contractual responsibilities and obligations to third parties, particularly lenders and those involved in financing partnerships.
- 20.2 Data and benchmarks which are appropriate to the organisation's objectives exist for the purpose of measuring the performance of their treasury management activities.
- 20.3 Any necessary actions resulting from applying such measures are taken.
- 20.4 Where fiscal or other incentives, grants or subsidies exist which may legally be applied for their employing organisation's benefit, they will be properly evaluated to enable a considered decision to be taken as to their relevance and potential value to that organisation.