

treasury management code essentials

The key things that those responsible for treasury management should know.

Introduction

Treasury Management is a complex and technical area. This short summary aims to provide those senior officers and those charged with governance, such as local authority councillors responsible for treasury management with some of the essentials.

Legal Status

The legal status of CIPFA's Treasury Management Code (The Code) derives in England and Wales from regulations issued under the Local Government Act 2003 and in Scotland under the Local Government in Scotland Act 2003. The Capital Finance and Accounting Regulations explicitly require **English and Welsh authorities to "have regard"** to the TM Code. In Scotland, SSI No 294 requires **Scottish local authorities to "have regard"** to the CIPFA Prudential Code and, hence, to adopt the TM Code.

Fundamentals of the Code

What is Treasury Management?

Definition:- "The management of the organisation's investments and **cash flows**, its banking, money market capital transactions; the **effective control of the risks associated with those activities**; and the pursuit of optimum **performance consistent with those risks**."

As the bold elements demonstrate, treasury management is really all about cash flow, the risks associated and optimising performance within those risks.

Key Principles

The Code identifies three principles:

1. Ensuring that public bodies put in place the necessary framework to ensure the effective management and control of treasury management activities.
2. That the framework clearly states that responsibility for treasury management lies clearly within the organisation and that the strategy clearly states their appetite for risk.
3. That value for money and suitable performance measures should be reflected in the framework.

These principles acknowledge the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. The aim of investment policy should be to protect capital and availability of funds ahead of return, hence Security, Liquidity and Yield only once the former two are satisfied.

Local authorities often use the services of external providers. The CIPFA treasury management panel produced a Bulletin which considered the regulation of and services provided by Treasury Management Advisors. It should be remembered that the responsibility for treasury management must always remain within the authority and cannot be passed to an external party.

Clauses to be adopted

The Code identifies four clauses to be adopted by all public service organisations. They should cover the following:-

1. The creation and maintenance of a policy statement and suitable treasury management practices which set out the means of achieving the policies and ensuring management and control
2. The minimum reports (to the body that approves the budget) should be an annual strategy and plan prior to the start of the financial year, a mid year review and an annual report after its close. A local authority should ensure that its reporting enables those responsible for treasury management to effectively discharge their duties.
3. Details of delegated responsibility for implementation and monitoring of policies and for the execution and administration of treasury management decisions.
4. Details of the body responsible for scrutiny of treasury management strategy and policies.

The Treasury Management Policy Statement

The Code recommends that an organisation's policy statement should include the following:

1. The definition of treasury management as detailed in the Code.
2. That the successful management of risk is the prime criteria to measure the effectiveness of treasury management activities.
3. The acknowledgement that treasury management supports the business and service objectives and is hence committed to achieving value for money within effective risk management.

Treasury Management Indicators

There are four specific treasury management Prudential Indicators. Local authorities must set these annually and they must be approved by the body that approves the budget prior to the start of the financial year. Their purpose is to restrict the activity of the treasury function to within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. They are:

- Upper Limits on Variable Interest Rate Exposure
- Upper Limits on Fixed Interest Rate Exposure
- Maturity Structures of Borrowing
- Total Principal Funds Invested for Greater than 364 Days

Treasury Management Practices (TMPs)

There are twelve TMPs specified in the Code and all public sector organisations are expected to include those that are relevant to their treasury management powers and the scope of their activities as part of their detailed operational procedures.

They cover the following:

TMP1 Risk management

Details how the following risks will be identified, monitored and controlled; credit and counterparty, liquidity, interest rate, exchange rate, refinancing, legal and regulatory, fraud, error and corruption, and contingency management and finally market risk management.

This is a key area for those charged with governance and senior finance officers to be familiar with and a particularly important area to scrutinise. It is essential that each public body is fully aware of the risks which it may be taking and the possible consequences.

TMP2 Performance measurement

To ascertain how performance will be measured and value for money ensured within an effective risk management framework.

TMP3 Decision-making and analysis

Details the processes to be undertaken when making treasury management decisions to ensure that the necessary checks and safeguards are in place.

TMP4 Approved instruments, methods and techniques

This provides the clarity of which treasury management instruments, methods and techniques which can be used.

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

Provides a clear statement of responsibilities for all involved in treasury management to ensure that appropriate controls such as the segregation of duties are in place.

TMP6 Reporting requirements and management information arrangements

This should specify the organisation's reporting including the minimum reports required to the body that approve the budget along with any additional internal reporting. Consideration should be given to the frequency of reporting, the level of detail and the level within the organisation.

TMP7 Budgeting, accounting and audit arrangements

In order to enhance accountability all the costs and revenues for treasury management should be brought together.

TMP8 Cash and cash flow management

The preparation of cash flow projections on a regular and timely basis provides a solid framework for effective cash management.

TMP9 Money laundering

Provides detail of the processes an organisation has in place to identify and report potential money laundering.

TMP10 Training and qualifications

This should detail the arrangements in place to ensure that those responsible for treasury management (for both officers and those charged with governance) have the appropriate skills and knowledge to carry out their role effectively. The responsible finance officer should ensure that training is made available for those charged with governance.

TMP11 Use of external service providers

The use of external providers and the services provided by them, how they are reviewed and monitored should be comprehensively documented.

TMP12 Corporate governance

This should detail how an organisation ensures that treasury management activities are undertaken with openness and transparency, honesty, integrity and accountability.

Guidance on Local Government Investments

The Department for Communities and Local Government (DCLG) produce Guidance on local Government Investments which local authorities are required to have regard to. This requires authorities to produce an investment strategy which must be approved by the same body who approve the budget prior to the start of the financial year. It may be revised during the year, but must be approved again.

The guidance makes explicit the requirement to consider the investment policy in terms of **Security - Liquidity - Yield** ...in that order!

The guidance defines a prudent investment policy as: achieving first of all security (protecting the capital sum

from loss) and then liquidity (keeping the money readily available for expenditure when needed). Only when these two elements are satisfied should yield (the amount of return you receive) be considered.

An authority's investment strategy must define its approach to the use of both "specified" and "non-specified" investments. Specified investments are those which offer high security and liquidity and include investments with the UK Government and other local authorities and must be for less than one year and made in sterling. The Strategy should deal in more detail with non-specified investments: identify the types of such investments, set a limit to the amounts held in them at any time in the year, and have guidelines for making decisions on such investments. -

Further sources of information:

(click to access each link)

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes \(Fully Revised Second Edition 2009\)](#)

[Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities \(Fully Revised Third Edition 2009\)](#)

[The Prudential Code for Capital Finance in Local Authorities \(Fully Revised Second Edition 2009\)](#)

[Department for Communities and Local Government Guidance on Local Authority Investments](#)

[CIPFA Treasury Management Panel Bulletin on Treasury Management Advisors](#)

[TIS Online - Investment Stream \(subscription service\)](#)

[CIPFA Treasury Management Network \(subscription service\)](#)

[CIPFA Capital Expenditure & Treasury Management Statistics](#)

[CIPFA Treasury Management Panel](#)

For more information contact Mandy on
mandy.bretherton@cipfa.org.uk