

Report

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Report to:	Finance and Information Technology Resources Committee (Special)
Date of Meeting:	11 February 2010
Report by:	Executive Director (Finance and Information Technology Resources)

Subject:	Adoption of CIPFA Code of Practice for Treasury Management
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ outline the key elements of the new CIPFA Treasury Management Code of Practice.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the new CIPFA Treasury Management Code of Practice is adopted.
- (2) that the Treasury Management Policy Statement, as detailed in the new CIPFA Treasury Management Code of Practice, is approved.
- (3) that the Financial Regulations are amended to include the clauses recommended by the new CIPFA Treasury Management Code of Practice
- (4) that the Council's Treasury Management Policy is amended to follow the form of wording suggested by the new CIPFA Treasury Management Code of Practice.

3. Background

- 3.1. In response to the events in 2008 and the difficulties faced by the banking sector, The Chartered Institute of Public Finance and Accountancy (CIPFA) revised the Code of Practice for Treasury Management in the Public Services (TM Code).
- 3.2. While many of the changes are cosmetic or have already been introduced, it is necessary to ensure compliance with best practice, that the revised TM Code be formally adopted.

4. Changes to the TM Code

- 4.1. The first change in practice is within the "Clauses to be Formally Adopted". A new clause has been added:

4. This organisation nominates [name of responsible body] to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The Finance and IT Resources Committee will act as the body responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4.2. The Code also states that:

2. This organisation (ie full board/council) 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.

Following current practice, the required reports will continue to be presented to the Finance and IT Resources Committee for endorsement and will then be referred to the Executive Committee for considering.

4.3. Treasury Management Practice 10 - Training and Qualifications has been changed to incorporate the following:

Those Board / Council Members tasked with Treasury Management responsibilities should be trained in the areas of their responsibilities; and

Those charged with governance recognise their individual responsibility and ensure they have the necessary skills to complete their role effectively.

Discussions are ongoing with the Head of Administration Services to ensure any required guidance and training is included in the comprehensive Members' Learning and Development Programme.

4.4. Within the Background and Explanatory Notes a new section on Managing Treasury Management Risks has been introduced placing Credit and Counterparty risk at the forefront of treasury risks. The TM Code states:

Credit ratings should only be used as a starting point when considering credit risk. Organisations should make use of generally available market information, such as the quality financial press, market data, information on government /support for banks and the credit ratings of that government support.

4.5. In managing credit and counterparty risk, the Council will be required to:

- ◆ Establish a sound diversification policy with high credit quality counterparties
- ◆ Set clear minimum credit limits for counterparties.
- ◆ Have regard to the credit ratings issued by all three rating agencies and make decisions based on the lowest rating
- ◆ Consider country, sector and group limits
- ◆ Regularly review credit ratings and act upon forward looking rating warnings

4.6. South Lanarkshire Council currently meets all the requirements detailed in 4.5 above, either formally through the Counterparty Policy approved by the Finance and IT Resources Committee on 3 May 2005, or through restrictions to this policy introduced by the Executive Director (Finance and IT Resources), and reported to Committee during the exceptional market circumstances experienced recently.

4.7. The Treasury Management Strategy 2010/2011 formalises these requirements.

5. CIPFA Code of Practice for Treasury Management in the Public Services 2009

5.1. CIPFA recommends that the following four clauses are adopted as part of the Council's Financial Regulations:

1. This organisation 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 organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
2. The Executive Committee will receive reports on the Council's 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.
3. Responsibility for the implementation and regular monitoring of the Council's treasury management policies and practices is delegated to the Finance and Information Technology Resources Committee, and for the execution and administration of treasury management decisions to The Executive Director (Finance and Information Technology Resources), who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management*.
4. The Finance and Information Technology Resources Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

5.2. The Council currently adheres to all these clauses. However, it is proposed that the Financial Regulations will be updated to reflect the required wording.

6. Treasury Management Policy Statement

6.1. 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:

1. This organisation defines its treasury management activities as:

"The management of the organisation'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."
2. This organisation 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.
3. This organisation 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.

6.2. Again, the Council currently meets all these requirements. However, the Council's Treasury Management Policy Statement will be updated to reflect the suggested form of words.

7. Employee Implications

7.1. None

8. Financial Implications

8.1. None

9. Other Implications

9.1. None

10. Equality Impact Assessment and Consultation Arrangements

10.1. Although this report recommends a change to an existing policy, this is only narrative to reflect legislative changes. This policy area has been screened for equality issues and is not relevant to the Council's equality duties and, therefore, no impact assessment is required.

10.2. There was no requirement to carry out any consultation in terms of the content of this report.

Linda Hardie

Executive Director (Finance and Information Technology Resources)

4 February 2010

Link(s) to Council Values and Objectives

♦ Value: Accountable, effective and efficient

Previous References

♦ Report to the Finance and IT Resources Committee 30 April 2002 entitled "Adoption of CIPFA Code of Practice for Treasury Management"

List of Background Papers

Revised Code of Practice for Treasury Management in the Public Services.

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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