

APPENDIX 3: TREASURY MANAGEMENT PRACTICES

The Budget Report approved by the City Council every year confirms the City Council's adoption of the CIPFA Code of Practice for Treasury Management in the Public Services ("the TM Code"). The TM Code requires Treasury Management Practices (TMPs) to be maintained. The following TMPs have been revised in accordance with the revised TM Code of 2021.

Organisations are permitted by the Code to amend CIPFA's standard text for TMPs "where necessary to reflect the particular circumstances of the organisation". Some amendments have been made to reflect the City Council's circumstances (for example, the TMPs cover a wide range of public bodies and some issues are not so significant for local authorities). For the sake of accountability all departures from the standard text are shown *in italics* or ~~struck through~~ as appropriate.

The TMPs require a number of detailed Schedules to be produced (whose content is not prescribed). They are working documents and are approved by the S151 Officer (they can also be updated for factual changes by TM staff).

The "responsible officer" referred to in the TMPs is the S151 Officer.

TMP 1 Risk Management

General statement

The City 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 robust due diligence procedures cover all external investment. 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 City Council'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 are set out in the schedules to this document.

TMP 1.1 Credit and counterparty risk management

The City Council will ensure that its counterparty lists and limits reflects a prudent attitude towards organisations with whom funds may be deposited or investments made, 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 TMP 1.1**. 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 or derivative arrangements. This will set out the City Council's policy and practices relating to environmental, social and governance (ESG) investment considerations.

TMP 1.2 Liquidity risk management

The City 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 City Council will not borrow earlier than required to meet cashflow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to finance future debt maturities or to ensure an adequate level of short term investments to provide liquidity for the organisation..

TMP 1.3 Interest rate risk management

The City Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues, in accordance with its treasury management policy and strategy and 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 will be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs, and that the policy for the use of derivatives is clearly detailed in the annual treasury strategy (*note: the City Council's current Treasury Strategy does not approve any use of derivatives*).

TMP 1.4 Exchange rate risk management

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

TMP 1.5 Refinancing risk management

The City Council will ensure that its borrowing and other long term liabilities 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 organisation 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.

TMP 1.6 Legal and regulatory risk management

The City 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 organisation, particularly with regard to duty of care and fees charged.

The City 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 manage the risk of these impacting adversely on the organisation.

TMP 1.7 Operational risk, including fraud, error and corruption

The City Council will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

TMP 1.8 Price risk management

The City 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 sums it invests *or borrows*, and will accordingly seek to manage the effects of such fluctuations.

TMP 1.9 Inflation risk

The City Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

TMP 2 Performance measurement

The City Council is committed to the pursuit of value for money in its treasury management activities, and to 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 City Council's stated business or service objectives. It will be the subject of 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 the criteria set out in **Schedule to TMP 2**.

TMP 3 Decision-making and analysis

The City 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 are detailed in the **Schedule to TMP 3**.

TMP 4 Approved instruments, methods and techniques

The City Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in **the Schedule to TMP 1.1**, and within the limits and parameters defined in TMP1 Risk management.

Where the City Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual Treasury Strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products (*note: the City Council's current Treasury Strategy does not approve any use of derivatives*).

This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

The City 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 City 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 **Schedule to TMP 5.1** and *the Delegations to Treasury Management staff* **Schedule to TMP 5.3**.

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 **Schedule to TMP 5.1**.

The delegations to the responsible officer in respect of treasury management are set out in **Schedule to TMP 5.3**. The responsible officer will fulfil all such responsibilities in accordance with the City Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

TMP 6 Reporting requirements and management information arrangements

The City 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 City Council meeting will receive:

- an annual report on the Treasury Management Policy, Strategy and plan to be pursued in the coming year

The Cabinet will receive:

- Regular monitoring reports on treasury management activities and risks. *This encompasses the TM Code requirement for a mid year review;*
- an annual report on the performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the City Council's treasury management policy statement and TMPs.

The City Council's Cabinet is considered to be an appropriate equivalent to the "Full Board" in the Code for receiving these reports.

The appropriate City Council body responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of Treasury Management policies and practices.

The Treasury Management *prudential* indicators will be reported as detailed in the Sector-specific Guidance Notes.

The present arrangements and the form of these reports are detailed in **Schedule to TMP 6**.

TMP 7 Budgeting, accounting and audit arrangements

The responsible officer will prepare, and this organisation 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 *report* will at minimum be those required by statute or regulation, together with such information as will *assist in demonstrating compliance of the budget* 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.

The City 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.

TMP 8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation 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 and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1.2) Liquidity risk management, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate). The present arrangements for preparing cash flow projections, and their form, are set out in **Schedule to TMP 8**.

TMP 9 Money laundering

The City 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 treasury management 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 **Schedule to TMP 9**.

TMP 10 Training and qualifications

The City 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 responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The responsible officer will ensure that Council 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 *have an* individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements, including a knowledge and skills schedule, are detailed in **Schedule to TMP 10**.

TMP 11 Use of external service providers

The City Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It 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 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 subjected to regular review. 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 responsible officer, and details of the current arrangements are set out in **Schedule to TMP 11**.

TMP 12 Corporate governance

The City 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 City Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedules 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.

Section 151 Officer: **Fiona Greenway**

Date
