

THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA) REVISED CODE OF PRACTICE FOR TREASURY MANAGEMENT IN PUBLIC SERVICES

Background

In 2002, CIPFA published Treasury Management in the Public Services Code of Practice and Cross sectional Guidance Notes (the TM Code). At the time, it issued sector specific guidance notes in respect to the main categories of public service organisations, including local authorities. This code was adopted by the London Borough of Hillingdon.

In 2009 the TM Code was revised and the opportunity was taken to update these local authority specific guidance notes.

Recommendation

That Council now approve the adoption of the 2009 revised CIPFA Treasury Management Code.

Information

In response to the financial crisis in 2008 and the collapse of the Icelandic banks, in November 2009 CIPFA released two updated codes. These were its revised Code of Practice on Treasury Management as well as the revised Prudential Code for Capital Finance in Local Authorities. To a large extent the two revised codes replicate their earlier versions however the main changes are detailed below.

The London Borough of Hillingdon has amended its treasury policy and practices to allow adoption of the new requirements into its treasury operations. Some of the references in the Treasury Management Strategy Statement are noted below.

- **CIPFA's definition of treasury management:** This now makes specific reference to investments. The revised definition of treasury management is: “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.” (Paragraph 1.2)
- **Strategy if large gross to net borrowing difference:** The Prudential Code requires that where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy. (Paragraph 4.5)
- **Risk Management:** The identification and management of risk remains at the heart of the treasury management function.
 - i. Credit and Counterparty Risk is placed at the forefront of treasury risks. (Paragraph 6.2) The Code recognises that credit ratings should be the

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starting point but not the only criteria in determining the lending list. Other considerations of creditworthiness and market information should also be assessed alongside. (Paragraph 6.4)

- ii. There needs to be a policy and assessment of risk for borrowing in advance of need. Authorities are required to demonstrate value for money for such borrowing and that they can ensure the security of such funds. (Paragraph 6.5)
- iii. Strategies should address how the risk associated with borrowing or investments subject to optionality is being addressed. An example is call option dates on Lender Option Borrower Option (LOBO) loans. (LOBO's have agreed dates where the lender has the option to alter the terms of the deal and the borrower then has the option to either accept the changes or repay the debt without penalty). (Paragraph 4.13)

- **Governance and Reporting:** There is greater emphasis on the adoption of and scrutiny of the treasury management function.
 - i. Full Council is to approve the annual treasury management strategy (per this report).
 - ii. Local authorities are required to name a responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as Audit Committee or relevant Scrutiny Committee to undertake this function. (Paragraph 9)
 - iii. In addition to the year-end report on treasury activity, Councils should report on treasury activity more frequently, with a mid-year report included as a minimum. (This is already in the Treasury Management Practices)
- **Skills and Training:** Officers and members tasked with treasury management responsibilities, including those tasked with the scrutiny of the treasury management function, should receive appropriate training relevant to their needs and understand fully their roles and responsibilities. (Paragraph 10)
- **External Services Providers:** Authorities should be clear about the services they receive which should meet their needs and be the subject of regular competitive tendering in accordance with standing orders. CIPFA advises organisations document comprehensively the arrangements made with the service providers. The overall responsibility for treasury management must nevertheless always remain with the organisation. (Paragraph 10)