

Leicester
City Council

WARDS AFFECTED: ALL WARDS (CORPORATE ISSUE)

**CABINET
COUNCIL**

**29 MARCH 2005
31 MARCH 2005**

FRAMEWORK FOR TREASURY DECISIONS

Report of the Chief Financial Officer

1. Purpose of Report

- 1.1 This report proposes changes to the decision making framework for the Council's treasury management activities to reflect the "prudential" system of capital finance effective from 2004/2005 and revised Government regulations.

2. Summary

- 2.1 Treasury Management is the process by which the Council's borrowing and investments are managed. This is a vital activity because of the sums involved. As at 12 February 2005, the Council's debt was £268 million, which has been raised to pay for capital projects over many years. This level of indebtedness should, however, be seen in the light of the value of the Council's assets which were recorded at the end of 2003/2004 at a value of £1,500 million.
- 2.2 The Council also holds a lot of externally invested cash which stood at £54 million as at 12 February 2005.
- 2.3 The Council's borrowing and investment decisions are currently governed by its Treasury Policy Document which was adopted in 2003. This document lays down the arrangements for the management of borrowing and investment. This provides for a lot of delegation to the Chief Finance Officer (CFO), including making borrowing and investment decisions. There are two main mechanisms by which democratic control is maintained over delegated decisions. The first is the requirement for the Cabinet to agree a Treasury Strategy for each financial year which specifies the overall objectives for borrowing and investment. The second is the requirement for the CFO to submit to scrutiny committee six monthly reports of Treasury Management activities.
- 2.4 The purpose of this report is to update the Policy Document. The proposed revisions take account of the new "prudential" system of capital finance that became effect in 2004/05. It follows the recommendations of "Treasury

Management in the Public Services: Code of Practice” (“the code”) published by the Chartered Institute of Public Finance and Accountancy (CIPFA), in 2001.

- 2.5 Complying with the code enables a local authority to demonstrate to banks, and others in the money markets, that the highest standards are applied. This in turn helps the authority to borrow and invest on the best possible terms, and to evidence the legality and regularity of its transactions. The CPA inspection process will also expect authorities to comply with the code.
- 2.6 The treasury policy comprises a Treasury Management Policy Statement (TMPS) and 12 “treasury management practices” (“TMPs”) (with supporting schedules). It also identifies matters to be delegated to the Cabinet and the Chief Finance Officer (CFO).
- 2.7 The TMPS defines the overall objectives of the treasury management function, and emphasises the pursuit of optimum performance and the effective control of risk. The 12 TMPs expand upon this and, together with supporting schedules, establish a comprehensive framework for the management and control of borrowing, investment and other treasury functions.
- 2.8 The changes proposed by this report reflect new Government regulations that specify that the annual treasury strategy is to be approved by the full Council. Previously this was a matter for the Cabinet.

3. Recommendations

3.1 The Cabinet is recommended: -

- i. To recommend the Council to approve the revised Treasury Policy included in the supporting information.
- ii. To agree to the continued delegation to the Chief Finance Officer of the matters referred to in the Treasury Policy

3.2 The Council is recommended to :-

- i. To adopt the Code of Practice on Treasury Management and consequently to agree the revised Treasury Policy appended to this report.

4. Financial and Legal Implications

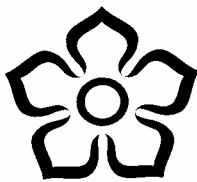
4.1 This report is solely concerned with Financial Issues.

5 Report Author/Officer to contact:

5.1 David Janes, Treasury Manager (Financial Services) - extn. 7490

DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	No
Executive or Council Decision	Council



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SUPPORTING INFORMATION

1. **CIPFA's Treasury Management Code**
 - 1.1 The Council's Treasury Policy comprises Treasury Management Policy Statement ("TMPS") and "treasury management practices" ("TMPs"), the latter being supported by detailed schedules. The policy requires the production each year of a "treasury management strategy" for that year.
 - 1.2 New regulations require that the Council's Treasury Strategy is to be jointly determined by Cabinet and the full Council. Subject to this, executive power lies with the cabinet, although it is now difficult to see what, for practical purposes, that role now involves. The Treasury Policy has been amended to reflect this requirement.
 - 1.3 Currently six monthly reports of treasury management activities are presented to REOPS scrutiny committee, and it is proposed that this continues.
 - 1.4 Listed below are the main day to day matters delegated to the Chief Finance Officer (subject to compliance with the approved treasury management strategy), and no changes to these are proposed.
 - Decisions on borrowing, investments, leasing and other forms of finance
 - Entering into associated contracts
 - selection of the money market brokers used
 - selection of leasing brokers used
 - the allocation of responsibilities and other staffing matters in respect of the treasury function
 - determining the procedures to be followed by staff involved in treasury management, including internal controls and safeguards

- determining a list of institutions from whom the Council may borrow money
- the preparation of schedules to TMPs to serve as working documents prepared for the day-to-day use of officers
- determining the list of institutions (the “lending list”) to whom the Council will lend and for what periods applying the criteria established by the Council’s treasury management strategy.

2. **Treasury Policy Statement**

2.1 The Council is recommended to adopt the following policy statement:

Leicester City Council defines the policies and objectives of its treasury management activities as follows: -

“The management of the authority’s 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”.

This Council 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.

This Council 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 best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.2 This organisation will create and maintain, as the cornerstones for effective treasury management:

- i) a treasury management policy statement (TMPS), stating the policies and objectives of its treasury management activities
- ii) 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.

2.3 The Cabinet and Council will receive reports on an annual strategy and plan in advance of the year, and the relevant scrutiny committee will receive twice yearly reports on performance.

2.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Chief Finance Officer who will act in accordance with the organisation’s policy

statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management.*" Monitoring of the function will be undertaken by the Resources and Equal Opportunities Scrutiny Committee.

3. **Treasury Management Practices**

- 3.1 As part of the Treasury Policy, the Council is asked to approve 12 treasury management practices.

TMP1 - Risk Management
TMP2 - Best Value and performance measurement
TMP3 - Decision making and analysis
TMP4 - Approved instruments, methods and techniques
TMP5 - Organisation, clarity and segregation of responsibilities and reporting arrangements
TMP6 - Reporting arrangements and management information arrangements
TMP7 - Budgeting accounting and audit arrangements
TMP8 - Cashflow and cashflow management
TMP9 - Money laundering
TMP10 - Staff training and qualifications
TMP11 - Use of external service providers
TMP12 - Corporate Governance

4. **TMP1 – Risk Management**

- 4.1 The CFO will have paramount regard to the risk associated with treasury management decisions: *The CFO 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 organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 "Reporting requirements and management information arrangements".*
- 4.2 We will make sure we have enough money: *The CFO will ensure that the Council 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 service objectives.*
- 4.3 Borrowing and investment strategy should be undertaken with a careful eye on the budgetary implications for the Council, whilst not missing opportunities to save money through good borrowing and investment decisions: *The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements. The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled*

by the organisation as an integral part of its strategy for managing its overall exposure to inflation. It will achieve these objectives by the prudent use of 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 or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

- 4.4 We will keep a list of the people we will lend money to: *The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the CFO will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited. The CFO will ensure that these lists and limits conform to the Council's Treasury Management Strategy. 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 arrangements.*
- 4.5 We will make sure we don't have to borrow too much all at once: *The Council will ensure that its borrowing and other capital financing arrangements are properly negotiated and structured and the maturity profile of the monies so raised are managed, with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time. The Council will actively manage its relationship with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.*
- 4.6 We will make sure we obey the law: *The CFO on behalf of the 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 it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation. The CFO 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 minimise the risk of these impacting adversely on the Council.*
- 4.7 We will use systems to prevent the risk of fraud or loss: *The CFO will ensure that circumstances are identified which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.*
- 4.8 We will ensure the Council is not exposed to big losses if interest rates move the wrong way: *The CFO will seek to ensure that its treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the*

principal sums it invests, and will accordingly seek to protect the Council from the effects of such fluctuations.

- 4.9 Members are asked to note that the avoidance of all risk is neither appropriate nor possible and a prudent balance will need to be struck between avoiding risk and maximising returns.

5. **TMP2 – Best Value and Performance Measurement**

5.1 We will continually monitor treasury management performance: *The Council is committed to the pursuit of best value in its treasury management activities, and to the use of performance monitoring and review in support of that aim, within the framework set out in its treasury management policy statement.*

5.2 Members are asked to note that the following measures are currently (and will continue to be) reported to scrutiny committee in the six monthly reviews of treasury management activities.

- i. Comparison of average interest rate on outstanding loans with the average of other UK councils
- ii. Whether borrowing was undertaken when interest rates were at their lowest
- iii. Whether the premature repayment of debt was undertaken when interest rates were highest (this enables repayment on the most favourable terms)
- iv. Whether investments have achieved target interest rates.

6. **TMP3 – Decision-making and analysis**

6.1 We will keep proper records: *The CFO on behalf of the 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 are to be detailed in the schedule, or schedules to this document.*

6.2 Current arrangements fulfill this requirement at a number of levels. At the lowest level office records maintain an audit trail that record what decisions were made, and by whom. At the highest level the six monthly reviews of treasury management activities presented to scrutiny committee records all major transactions during the period under review.

7. **TMP4 Approved instruments, methods and techniques**

7.1 We will only use such borrowing and investment instruments as cabinet approves: *The CFO will undertake treasury management activities by employing only those instruments specified below:*

Investments

1. *Permitted investments as are listed in the Council's current, or most recent, treasury management strategy.*

Loans

1. *Public Works Loans Board*
2. *European Investment Bank*
3. *Stock Issues*
4. *Market Long-Term Loans*
5. *Market Temporary Loans (up to 364 days)*
6. *Local Temporary Loans*
7. *Local Bonds*
8. *Negotiable Bonds*
9. *Commercial Paper*
10. *Medium Term Notes*
11. *Bank Overdraft*

Other Capital Finance

1. *Operational Leases*
2. *Finance Leases*

8. TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements

- 8.1 We will make sure the duties of staff are properly organized and written down: *The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that as many activities as possible are structured and managed in a fully integrated manner, and that there is, where possible, a clarity of treasury management responsibilities.*

The principle on which this will be based is a clear distinction between those charged with setting treasury and 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

The CFO 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 CFO will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

9. TMP6 – Reporting requirements and management information arrangements

- 9.1 Regular reports will be taken to members: *The CFO will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the 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 Council will receive:

- i. an annual report on the strategy and plan to be pursued in the coming year*
- ii. an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.*

- 9.2 The former report will be taken to the cabinet, and then to the Council. The latter will be taken to scrutiny committee.

10. **TMP7 – Budgeting, accounting and audit arrangements**

- 10.1 The costs of treasury management will be reflected in the Council's normal budgeting and accounting arrangements: *The CFO will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function together with associated income.*

11. **TMP8 – Cash and cashflow management**

- 11.1 The CFO will manage the Council's cash holdings in their entirety: *Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the CFO, 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 CFO will ensure that these are adequate.*

- 11.2 The current arrangements meet these objectives. It does not make sense to earmark monies for treasury management purposes, as this would lose money.

12. **TMP9 – Money Laundering**

- 12.1 To avoid money laundering, we will make sure we know who we are dealing with: *The 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 counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.*

12.2 A policy to prevent the Council's unwitting involvement in money laundering has been established.

13. **TMP10 – Staff training and qualifications**

13.1 We will use properly trained staff: *The 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 qualified and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The CFO will recommend and implement the necessary arrangements.*

14. **TMP11 – Use of external service providers**

14.1 We will use external experts, where this is sensible: *The Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, the CFO will ensure it does so for reasons that have been submitted to 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, and where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.*

15. **TMP12 – Corporate Governance**

15.1 *The Council is committed to the pursuit of proper corporate governance throughout its business 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.*

16. **Other Implications**

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting Information
Equal Opportunities	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

17. **Consultations**

17.1 None.

18. **Background Papers – Local Government Act 1972**

18.1 None.

19. **Author**

19.1 The author of this report is David Janes of the Town Clerk's & Corporate Resources Department on extension 7490

M Noble
Chief Financial Officer.