


**Haringey** Council  
Agenda item:

**Audit Committee**

**On 2 November 2010**

Report Title.	<b>Treasury Management Practices Document</b>
Report of:	<b>Director of Corporate Resources</b>
Signed :	 for DoCR
Contact Officer :	<b>Nicola Webb, Head of Finance: Treasury &amp; Pensions</b> <b>Telephone 020 8489 3726</b>
Wards(s) affected: <b>All</b>	Report for: <b>Non Key Decision</b>
<b>1. Purpose of the report</b>	
1.1.	To present the Treasury Management Practices document for scrutiny as required by the CIPFA Treasury Management Code of Practice.
<b>2. Recommendations</b>	
2.1	That members consider and approve the Treasury Management Practices (TMP) document attached as Appendix 1. The TMP was approved by General Purposes Committee on 23 <sup>rd</sup> September 2010.
<b>3. Reason for recommendations</b>	
3.1	To ensure that the Treasury Management practices adopted and used by officers have been independently scrutinised by members and also to meet the requirements of the CIPFA Treasury Management Code of Practice.
<b>4. Summary</b>	
4.1	The set of Treasury Management Practice documents required by the CIPFA Code of Practice are shown in the report. These explain how the Council approaches each aspect of treasury management.

## **5. Head of Legal Services Comments**

- 5.1 The Head of Legal Services has been consulted on the content of this report and comments that its content and recommendation are within the policy agreed by Council and consistent with the purposes of Financial Regulations.

## **6. Use of appendices**

- 6.1 Appendix 1: Treasury Management Practices Document approved by General Purposes Committee on 23<sup>rd</sup> September 2010.

## **7. Local Government (Access to Information) Act 1985**

- 7.1 The following background papers were used in the preparation of this report:

- CIPFA Treasury Management Code of Practice

For access to the background papers or any further information please contact Nicola Webb, Head of Finance: Treasury & Pensions, on 0208 489 3726.

## **8. Treasury Management Practices**

- 8.1 The CIPFA Treasury Management Code of Practice requires local authorities to produce and maintain a document of Treasury Management Practices (TMP). The Code requires the document to be subject to scrutiny following initial member approval. The draft document was presented to and approved by General Purposes Committee on 23<sup>rd</sup> September 2010, as part of a wider report on treasury management issues.
- 8.2 The TMP document attached as Appendix 1 has been prepared using the words provided by CIPFA and they have only been changed where necessary to make them relevant to Haringey. A statement of how each area is applied by the Council is provided underneath.
- 8.3 The document is supplemented by a Systems Document covering the detail of how to apply the practices for use by officers in their day to day work on treasury management.

## **9. Recommendation**

- 9.1 That members consider and approve the Treasury Management Practices (TMP) document attached as Appendix 1. The TMP was approved by General Purposes Committee on 23<sup>rd</sup> September 2010.

## APPENDIX 1

### Haringey Council: Treasury Management Practices (TMPs)

#### **TREASURY MANAGEMENT PRACTICE 1: RISK MANAGEMENT**

All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.

The Director of Corporate Resources 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*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below.

##### **1.1 Credit and Counterparty Risk Management:**

###### Definition

Credit and counterparty risk is the risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or revenue resources.

###### CIPFA Principle

The 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 its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, 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 annual Treasury Management Strategy Statement. 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.

###### Application in Haringey

The Council's counterparty list is drawn up with the advice of the Council's Treasury Management advisers and reflects the Council's cautious risk averse approach. It is approved annually as part of the Treasury Management Strategy Statement.

## 1.2 Liquidity Risk Management

### Definition

Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be compromised.

### CIPFA Principle

The 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 Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### Application in Haringey

The Council states in its Treasury Management Strategy Statement its borrowing strategy including whether it intends to borrow in advance of need. Officers maintain a cashflow forecast to ensure that adequate cash balances are available to meet the Council's obligations.

## 1.3 Interest Rate Risk Management

### Definition

Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

### CIPFA Principle

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 as amended 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 should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

### Application in Haringey

The Council has access to information from its Treasury Management advisers and other financial commentators about the likely future course of interest rates to enable it to assess future treasury risks. The majority of the Council's loans and investments are fixed rate and the proportion of those

which can be variable is set out in the Treasury Management Strategy Statement annually.

#### **1.4 Exchange Rate Risk Management**

##### Definition

Exchange rate risk is the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

##### CIPFA Principle

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

##### Application in Haringey

Currently the Council does not have any significant transactions in foreign currencies, so exchange rate risk is not an issue for the Council.

#### **1.5 Refinancing Risk Management**

##### Definition

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Council for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

##### CIPFA Principle

The Council will ensure that its borrowing, private financing and partnership arrangements 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 Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships 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.

##### Application in Haringey

The Council monitors its maturity profile to ensure it is as even as possible to avoid substantial refinancing in any one year. Targets for the maturity profile are set as a prudential indicator in the Treasury Management Strategy Statement annually. When borrowing decisions are being made, the maturity profile is one of the factors considered when determining the length of time to borrow for.

## **1.6 Legal and Regulatory Risk Management**

### Definition

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

### CIPFA Principle

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 Council, particularly with regard to duty of care and fees charged.

The 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 minimise the risk of these impacting adversely on the Council.

### Application in Haringey

The Council's Financial Regulations, which form part of the Council's Constitution, contain evidence of the power to act as required by section 151 of the Local Government Act 1972.

The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them. Officers establish the powers of those with whom they enter into transactions for the first time, including any compliance requirements in respect of a duty of care and best practice.

## **1.7 Fraud Error and Corruption and Contingency Management**

### Definition

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

### CIPFA Principle

The Council will ensure that it has identified the circumstances 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.

### Application in Haringey

The Council has in place a Scheme of Delegations to ensure that only authorised officers can carry out transactions on behalf of the Council. A systems document is in place which details all the procedures to be followed by officers.

## **1.8 Market Risk Management**

### Definition

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which it fails to protect itself adequately.

### CIPFA Principle

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

### Application in Haringey

The Council does not currently invest in instruments whose market value can vary, so it is not exposed to this risk.

## **TREASURY MANAGEMENT PRACTICE 2 - PERFORMANCE MEASUREMENT**

### CIPFA Principle

The Council is committed to the pursuit of best value in its treasury management activities, and to the 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 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.

### Application in Haringey

The Council measures the performance of its treasury portfolio on a quarterly basis using the following measures:

- Value weighted credit score
- Time weighted credit score
- Weighted Average Maturity
- Interest rate payable
- Interest rate earned

Value for money from service providers is tested regularly through tendering processes.

### **TREASURY MANAGEMENT PRACTICE 3 - DECISION MAKING AND ANALYSIS**

#### CIPFA Principle

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 in reaching decisions are detailed in the officers' detailed systems document.

#### Application in Haringey

The Council's treasury management team maintain a complete audit trail of all decisions taken within the limits set out in the annual Treasury Management Strategy Statement approved by the Council.

### **TREASURY MANAGEMENT PRACTICE 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

#### CIPFA Principle

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy Statement, and within the limits and parameters defined in *TMP1 Risk Management*.

#### Application in Haringey

The Treasury Management Strategy agreed by the Council on an annual basis sets out the approved instruments, methods and techniques to be used in treasury management. The Council's treasury management team undertake activities within the limits of the current strategy.

### **TREASURY MANAGEMENT PRACTICE 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

#### CIPFA Principle

The 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 Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Corporate Resources 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 Director of Corporate Resources 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 Director of Corporate Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

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

The Director of Corporate Resources will fulfil all responsibilities delegated to them in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

#### Application in Haringey

The officers carrying out treasury management activity have clear roles and limits of responsibilities and embedded in these is the principle of segregation of duties. These arrangements are subject to an annual internal audit to ensure the controls in the procedures are sufficient.

### **TREASURY MANAGEMENT PRACTICE 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

#### CIPFA Principle

The 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 Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- 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 Treasury Management Practices.

The General Purposes Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

#### Application in Haringey

The draft annual Treasury Management Strategy is reported initially to General Purposes Committee. It is then presented to Audit Committee for scrutiny before Cabinet and final approval by full Council in February each year in time for the new financial year.

The mid-year report and out-turn reports are presented to General Purposes Committee, Cabinet and full Council.

General Purposes Committee are responsible for monitoring treasury management activity and this is carried out through the production of quarterly reports.

### **TREASURY MANAGEMENT PRACTICE 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

#### CIPFA Principle

The Director of Corporate Resources will prepare, and the Council will approve and, if necessary, from time to time will 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. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques*. The Director of Corporate Resources 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 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.

#### Application in Haringey

The costs of the staff working on treasury management are shown in the Corporate Finance budget and the interest earned and payable are shown in the Non Service Revenue budget. These expenditure and income budgets will be brought together and reported when setting the Treasury Management Strategy.

The Council accounts for all its treasury management transactions in accordance with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

### **TREASURY MANAGEMENT PRACTICE 8: CASH AND CASH FLOW MANAGEMENT**

#### CIPFA Principle

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Corporate Resources, 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 Director of Corporate Resources will ensure that these are adequate for the purposes of monitoring compliance with *TMP1.2 Liquidity risk management*.

#### Application in Haringey

All the Council's funds are aggregated for cash flow and investment management arrangements. The only exception to this is pension fund monies, which are invested separately in accordance with the requirements of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009.

A cash flow forecast is prepared at the beginning of the financial year and maintained on a regular basis to manage the Council's liquidity risk.

### **TREASURY MANAGEMENT PRACTICE 9: MONEY LAUNDERING**

#### CIPFA Principle

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.

#### Application in Haringey

In accordance with recommended practice the Council maintains an anti money laundering policy. The policy is to prevent, wherever possible, the

organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The Council has nominated the Head of Internal Audit & Risk Management to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated. The responsible officer is conversant with the requirements of the Proceeds of Crime Act 2002 and ensures relevant staff are appropriately trained and informed so they are alert for suspicious transactions. The responsible officer has made arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).

The officers carrying out treasury management have clear procedures to identify the borrowers and lenders they deal with. The procedures specify the authentication process which must be followed when dealing with a lender or borrower for the first time.

## **TREASURY MANAGEMENT PRACTICE 10: TRAINING AND QUALIFICATIONS**

### CIPFA Principle

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 experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Corporate Resources will recommend and implement the necessary arrangements.

The Director of Corporate Resources 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 recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

### Application to Haringey

All council members are invited to attend training on treasury management when they are elected and on a regular basis to keep their knowledge and skills up to date.

Officers' training needs are reflected in their development plans and they keep their knowledge and skills up to date through information and events from the Council's treasury advisers and CIPFA.

## **TREASURY MANAGEMENT PRACTICE 11: USE OF EXTERNAL SERVICE PROVIDERS**

### CIPFA Principle

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be 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, it will ensure it does so for reasons which 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. And 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 Director of Corporate Resources.

### Application in Haringey

Contracts are in place with the Council's bankers and treasury management advisers. These are subject to regular review and re-tender in accordance with the Council's Contract Procedure Rules, which form part of the Council's Constitution.

## **TREASURY MANAGEMENT PRACTICE 12: CORPORATE GOVERNANCE**

### CIPFA Principle

The 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 Council has adopted and has implemented the key recommendations of the Code. This together with the other arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Corporate Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### Application in Haringey

The Director of Corporate Resources ensures that systems are in place to deliver proper financial administration and holds monthly meetings with officers responsible for treasury management to review the operation of the function. The annual Treasury Management Strategy Statement and quarterly reports are published on the Council's website, along with the annual Statement of Accounts to ensure transparency.