

**NORTH WALES FIRE & RESCUE SERVICE**

<b>COMMITTEE:</b>	NORTH WALES FIRE AUTHORITY
<b>DATE:</b>	15 DECEMBER 2003
<b>REPORT OF:</b>	TREASURER
<b>SUBJECT:</b>	CIPFA CODE OF PRACTICE FOR TREASURY MANAGEMENT IN PUBLIC SERVICES

1. INTRODUCTION.

1.1 As part of the Service Level Agreement (SLA) between Conwy and the Fire Authority the Treasurer is responsible for the Treasury Management function for the Fire Authority. The CIPFA Code of Practice on Treasury Management (2002) was formally adopted by Conwy County Borough Council in April 2002. Previously it was not considered necessary for the Fire Authority to adopt the code separately as it would be covered by Conwy adopting the code as part of the SLA. However, the new Prudential Code for Capital Finance in Local Authorities requires that a list of prudential indicators be provided with the budget statement. One of the indicators specifically refers to the Authority having adopted the CIPFA Code of Practice on Treasury Management and so it is now a requirement for the Fire Authority to formally adopt the Code.

1.2 Appendix A outlines the Code of Practice and Appendix B sets out the Treasury Management Practices that are relevant to the Fire Authority

2. RECOMMENDATIONS

- to adopt the CIPFA Code of Practice on Treasury Management in Public Services (2002) with immediate effect;
- to adopt the four clauses in section 3 of Appendix A into its Financial Regulations;
- to adopt the three clauses in section 4 of Appendix A as its Treasury Management Policy Statement;
- to adopt the Treasury Management Practices relevant to the Fire Authority as outlined in Appendix B.

K W FINCH  
Treasurer

## **1. PURPOSE OF THE CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT**

- 1.1** To assist public service organisations in their development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.
- 1.2** To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.
- 1.3** To encourage the pursuit of best value in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.
- 1.4** To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisation they serve.
- 1.5** To help facilitate the standardisation and codification of treasury management policies and practices in the public services.
- 1.6** To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.
- 1.7** To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in various parts of the public services operates.
- 1.8** To further the understanding and confidence of financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

## **2. EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS**

The code makes four key recommendations:

- 2.1** Public Service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- 2.2** Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities.

**2.3** They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

**2.4** In order to achieve the above, organisations should:

- adopt the four clauses in Section 3;
- adopt a treasury management policy statement as recommended in Section 4;
- follow the recommendations in Section 5 concerning the creation of treasury management practices (TMPs).

It is CIPFA's view that throughout the public service the priority is to protect capital rather than to maximise return. The avoidance of risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.

### **3. CLAUSES TO BE FORMALLY ADOPTED**

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

**3.1** This organisation adopts the key recommendations of CIPFA's Treasury Management in Public Services: Code of Practice as described in the Code.

**3.2** Accordingly, this organisation will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement stating the policies and objectives 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.

**3.3** This organisation 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, and an annual report after its close, in the form prescribed in its TMPs.

- 3.4** This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive Panel, and for the execution and administration of treasury management decisions to the Treasurer, 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 TREASURY MANAGEMENT POLICY STATEMENT**

CIPFA recommends that the organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities:

- 4.1** This organisation defines its treasury management activities as: "The management of the organisation'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 with those risks".
- 4.2** 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.
- 4.3** 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 best value in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.

#### **5. TREASURY MANAGEMENT PRACTICES**

CIPFA recommends that an organisation's treasury management practices (TMPs) include those of the following that are relevant to its treasury management powers and the scope of its treasury management activities.

- 5.1** Risk Management: the responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report at least annually.
- 5.2** Best value and performance measurement: this organisation 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.

- 5.3** Decision-making and analysis: this organisation 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.
- 5.4** Approved instruments, methods and techniques: this organisation will undertake its treasury management activities by employing only those instruments, methods and techniques within the limits and parameters defined in *TMP1 Risk Management*.
- 5.5** Organisation, and segregation of responsibilities, and dealing arrangements: this organisation considers it essential, for the purposes of 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.
- 5.6** Reporting requirements and management information arrangements: this organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on implications of changes, particularly budgetary, resulting from regulatory, economic, market and other factors affecting its treasury management activities; and on the performance of the treasury management function.
- 5.7** 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.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with proper accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

This organisation will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function.

- 5.8** Cash flow and cash flow management: 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.
- 5.9** Money laundering: this organisation 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.
- 5.10** Staff training and qualifications: this organisation 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.
- 5.11** Use of external service providers: this organisation recognises the potential value of employing external providers of treasury management services in order to acquire access to specialist skills and resources, and will undertake a full evaluation of the costs and benefits.
- 5.12** Corporate governance: this organisation 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.

\* \* \* \* \*

## **Treasury Management Practices**

### **1. INTRODUCTION**

The Code of Practice for Treasury Management in Public Services (2002) contains a requirement to adopt 12 Treasury Management Practices depending on their relevance to the Authority's treasury management powers and the scope of the Authority's treasury management activities.

Cash balances on the Fire Authority's bank account are pooled with the balances of Conwy County Borough Council and invested on the market by Conwy. The cash balances for the Fire Authority are reconciled on a daily basis, and interest on balances is paid at the overnight rate achieved by Conwy plus 0.25%. The total amount of interest earned per annum is approximately £90,000. On the inception of the North Wales Fire Authority it was envisaged that the cash balances would be minimal as the Authority held no reserves or provisions that would create large cash surpluses. On this basis it would not have been cost effective for the Fire Authority to invest directly on the market.

As the balance on the Pensions Provision has grown, giving rise to larger cash balances it may be a consideration in the future for the Fire Authority to invest on its own behalf. With this in mind the TMPs outlined will be those that recognise that the Authority is active in the money market and utilises all lending and borrowing powers open to it.

### **2. TREASURY MANAGEMENT PRACTICES**

As Conwy has already adopted the Code and implemented the necessary procedures, the TMPs for the Fire Authority will be a duplication of those adopted by Conwy.

Conwy utilised the services of Butlers the council's Treasury Management Consultants, to produce a manual which covered the 12 recommended practices. The manual has not been reproduced for this report as it contains all the standing information for treasury management staff, and so is quite a large document.

Below is a brief summary of each treasury management practice and an indication of its scope in order to allow Members to gain an understanding of them.

#### **(i) TMP 1 - Risk Management**

This section outlines a series of potential risks to the Authority inherent in treasury management, and provides a series of measures to combat those risks. Some are eliminated entirely e.g. exchange risk as the Authority does not lend or borrow in foreign currency, and market risks as the Authority does not use borrowing instruments that can fluctuate in value.

Some risks can be reduced e.g. liquidity risk can be reduced by not tying up all the Authority's cash in long term lending and having an overdraft facility that can be called on if necessary; interest rate risk can be reduced by limiting its variable rate borrowings, borrowing short in periods of higher rates and taking advantage of low rates by borrowing long term.

#### **(ii) TMP2 - Best Value**

Best Value and Treasury Management is covered in Appendix A Section 4.3.

**(iii) TMP3 - Decision Making Analysis**

The Authority will keep records of its dealings and the reasons for its decisions. These range from the high level reports to Members on annual strategy to the individual long term borrowing transactions.

**(iv) TMP4 - Approved Sources of Finance**

Ensures that the Authority only uses borrowing instruments that safeguard the Authority's asset of money, and only to the levels approved by the Authority. Broadly speaking, this restricts the Authority to dealing on the money market (mainly to other local authorities and building societies), money market funds, direct lending to banks and to the Debt Management Office.

**(v) TMP5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements.**

This section sets out the specific duties of the staff involved. In essence the Treasurer exercises an overview with regular discussions to ensure the strategy report approved early in the financial year is being followed. The Fire Authority Accountant takes day-to-day responsibility and organises all long-term borrowing following the approval of the Treasurer. An accountant acts as day-to-day dealer; with staff in the section as back up, and the accountancy assistants act as back office staff dealing with the correspondence. All duties are included in job descriptions and are segregated so that the dealing staff do not send out correspondence and back office staff do not deal.

Dealing arrangements are covered in detail, covering the brokers to be used, the counterparties and any limits, and the information that must pass and to whom.

**(vi) TMP6 – Reporting**

The Treasurer will prepare the following reports for Members:

- An annual report on the strategy and plan to be pursued in the coming year
- An annual report on the performance of the Treasury Management function and the transactions executed in the past year.
- During the year the borrowing activities of the Treasury Management function will be updated to Members.

**(vii) TMP7 – Budgeting, Accounting and Audit Arrangements**

The Fire Authority Accountant will monitor all income and expenditure for Treasury Management and report any variances to budget. This will be included as part of the "Outturn Report" submitted to Committee on a quarterly basis.

Auditors and those charged with regulatory review will have access to all information and papers supporting the activities of the Treasury Management function, as are necessary for the proper fulfilment of their roles.

**(viii) TMP 8 - Cash and Cash Flow Management**

An overall cash position is to be ascertained for each day and rational decisions to be made in the light of full knowledge of the Authority's gross cash position.

**(ix) TMP 9 - Money Laundering**

This is a constant risk and is guarded against by having a list of approved counterparties and by verifying the identity of all counterparties to ensure it is correct prior to releasing monies.



**(x) TMP 10 - Staff Training**

Sets out the requirement to appoint staff that have appropriate qualifications and to ensure that sufficient training is provided by a variety of means to ensure that their knowledge is kept up-to-date.

**(xi) TMP 11 - Use of external service providers**

Conwy uses three types of external service provider and as part of the SLA the external services are available to the Fire Authority. It has a contract with a clearing bank to provide the usual banking services, which any large organisation requires; it has a list of brokers who deal on the London money market and it has a treasury management consultant. Both the bank and the treasury management consultant are the subject of a periodic market review.

**(xii) TMP 12 Corporate Governance**

The Authority has committed itself to proper corporate governance and adherence to this Code is an aid to achieving the openness, transparency, honesty, integrity and accountability required by corporate governance.