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|  | <p style="text-align: center;"><b>Executive</b><br/>16 January 2012</p> <p style="text-align: center;"><b>Report from the Director of<br/>Finance and Corporate Services</b></p> |
| Wards Affected:<br>ALL  |  |
| <b>CIPFA Code of Practice for Treasury Management (2011)</b>                      |  |

## **1. SUMMARY**

- 1.1 This report details the revised Code of Practice in Treasury Management

## **2. RECOMMENDATIONS**

- 2.1 The Executive is asked to recommend the revised Treasury Policy Statement to Full Council for approval.

## **3 DETAIL**

- 3.1 The first CIPFA Code of Practice in Treasury Management was issued in 1996 with the objective of improving the recording and reporting of treasury management activities. As required under the Code, Full Council approved the last (2009) revision of the Code of Practice issued in September 2010, following the revision of procedures in the light of the Icelandic banking crisis.

### **2011 REVISED TREASURY MANAGEMENT CODE OF PRACTICE**

- 3.2 The 2011 Code of Practice and Guidance Notes have been issued following the enactment of the 2011 Localism Bill which gives local authorities general powers of competence and instituted housing reform. The revised Code follows previous Codes that have been adopted by the Council. Public sector organisations are required to adopt four clauses as set out in Appendix 1 as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances – the Council has previously adopted these clauses.
- 3.3 CIPFA also recommends that the Treasury Policy Statement of the high level policies adopted by Full Council, should follow the wording set out in Appendix 2. The only change from the previous wording is to add the words in bold ('and any financial instruments entered into to manage these risks') in the management of risk. At present there are no plans to use new instruments / derivatives in the management of risk. Not only has the use of derivatives

previously been seen as ultra vires for local authorities, but there is felt to be a lack of expertise for effective management.

- 3.4 The more detailed Treasury Management Practices (TMP) set out in Appendix 3 remain as in 2009. However, authorities should make reference to their high level approach to borrowing and investment in their Treasury Management Policy Statement. Also, TMP4 (Approved instruments, methods and techniques) should refer to the use of derivatives if this was proposed. The detailed TMPs will be revised in 2012. There is also a requirement to set out the Council's high level approach to borrowing and investment.
- 3.5 The other practical changes to treasury management activity and reporting will be seen in the Treasury Management Strategy agreed as part of the budget process. First, there should be a new treasury indicator, upper limits on the proportion of net debt to gross debt in the forthcoming year and following two financial years, to highlight where an authority may be borrowing in advance of its cash requirement. Second, the treasury management implications of housing self financing reform, where the housing revenue account (HRA) will be given increased flexibility to manage the housing stock. The Department for Communities and Local Government will repay approximately £200m Public Works Loans Board debt owed by Brent Council, to place the HRA on a sound basis. The changes will affect such areas as:
- a) The remaining council debt will be split between the HRA and the General Fund in such a way as to cause no detriment to the General Fund.
  - b) Instead of one loans pool, there may be up to three pools to ensure that debt is clearly identified.
  - c) If the council has not taken long term loans to pay for capital expenditure, the HRA may be credited with the benefit of the use of cheaper finance.
  - d) The HRA should be consulted in taking new long term loans / debt restructuring.

#### **4. FINANCIAL IMPLICATIONS**

These are covered in the report.

#### **5 DIVERSITY IMPLICATIONS**

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

#### **6 STAFFING IMPLICATIONS**

None

#### **7 LEGAL IMPLICATIONS**

There are no legal implications arising from the report.

#### **8 BACKGROUND**

Report to Full Council – Treasury Management Annual Report 2010/11 –  
September 2011

Persons wishing to discuss the above should contact the Martin Spriggs, Exchequer and Investment Section, Finance and Corporate Resources, on 020 8937 1472/74 at Brent Town Hall.

CLIVE HEAPHY  
Director of Finance and Corporate Services

**Clauses to be adopted by the Council**

- a) This organisation will create and maintain, as the cornerstones for effective treasury management:
- a treasury management policy statement (TMPS) stating the policies and objectives of its treasury management activities
  - suitable treasury management practices (TMP), 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.

The content of the policy statement and the TMPs will follow the recommendations contained in Sections 6 and 7 of the Code.

- b) The full council 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, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- c) This organisation delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Director of Finance. The Director will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- d) This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Authorities are required to refer to their high level approach to borrowing and investment. For Brent Council this is: At a time of market volatility and very low short term interest rates, to minimise risk and costs by reducing the level of cash balances available to lend to the market.

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

- 1 Treasury management is '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 consistent with those risks.'
- 2 Brent Council regards the successful identification, monitoring and control of risk to be the prime criterion 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 authority, **and any financial instruments entered into to manage these risks.**
- 3 Brent 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.

## **APPENDIX 3**

### **TREASURY MANAGEMENT PRACTICES**

|       |   |
|-------|---|
| TMP1  | Risk management   |
| TMP2  | Performance measurement   |
| TMP3  | Decision making and analysis  |
| TMP4  | Approved instruments, methods and techniques                              |
| TMP5  | Organisation, clarity and segregation of duties, and dealing arrangements |
| TMP6  | Reporting requirements and management information arrangements            |
| TMP7  | Budgeting, accounting and audit arrangements                              |
| TMP8  | Cash and cash flow management   |
| TMP9  | Precautions against money laundering                                      |
| TMP10 | Staff training and qualifications   |
| TMP11 | Use of external service providers   |
| TMP12 | Corporate governance  |