

TREASURY MANAGEMENT MANUAL
(Incorporating Treasury Management Practices)
LONDON BOROUGH OF SOUTHWARK

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1. Introduction

- 1.1 Treasury management policies and strategies are determined under governance arrangements set out in the council's constitution and financial standing orders and this manual sets out detailed practices to support those policies and strategies.
- 1.2 The council assembly adopted, in February 2010, an updated code of practice on treasury management published by the Chartered Institute of Public Finance and Accountancy (CIPFA). An extract of the resolution adopting the code, including the twelve treasury management practices (TMPs) cited in the code, is set out at Appendix A. Treasury strategy is agreed by council assembly and monitored by cabinet. Scrutiny and review is carried out by the audit and governance committee and all strategic, executive, execution, administrative and operational decisions are delegated to the finance director. Operational activity is further sub-delegated under a scheme of management.
- 1.3 The TMPs have been drawn from the treasury management code and are maintained by the finance director under delegated authority. CIPFA's suggested arrangements for each practice have been suitably adapted to more clearly reflect prudent practice at Southwark and observe the code's requirement that:
 - Public service organisations put in place formal comprehensive policies strategies, objectives, practices and reporting arrangements for the effective management and control of treasury management activities.
 - Policies and practices make clear that effective management and control of risk are prime objectives.
 - Treasury management pursue value for money and use suitable performance measures in a manner consistent with effective risk management.

2. Treasury Management Practices

- 2.1 The arrangements around treasury management practices (TMPs) cited in the treasury management code are set out below and supported by accompanying schedules.

TMP 1 - Risk management

TMP 2 - Performance measurement

TMP 3 - Decision-making and analysis

TMP 4 - Approved instruments, methods and techniques

TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 - Reporting requirements and management information arrangements

TMP 7 - Budgeting, accounting and audit arrangements

TMP 8 - Cash and cash flow management

TMP 9 - Money laundering

TMP 10 - Training and qualifications

TMP 11 - Use of external service providers

2.2 TMP 1 - Risk management

- 2.2.1 The council holds financial instruments in the normal course of its business. The debt helps funds capital expenditure and cash helps manage working capital. This activity give rise to particular types of risks, the most important of which are credit, liquidity, interest rate/market and refinancing risks. Other risks include inflation, exchange rate, regulatory and operational risks. It is the finance director's responsibility to ensure that proper arrangements are in place for managing, controlling and reporting (in accordance with TMP 6 – reporting requirements and management information arrangements) of these risks and that exposure to each risk is commensurate with securing the principles set out below.

Credit risk

- 2.2.2 In managing cash and investments, security of principal is a key objective and a prudent approach is therefore required in selecting investment issuers, counterparties and instruments and in determining exposure limits. Activities should therefore be in accordance with TMP 4 (approved instruments, methods and techniques).
- 2.2.3 In relation to borrowing and financing activities, where credit risk is less of an issue, a prudent approach is nevertheless needed in choosing counterparties and instruments to secure value for money.

Liquidity risk

- 2.2.4 To ensure that financial obligations can be discharged and business requirements met, it is important that adequate (though not excessive) cash, liquidity and credit lines are available and have regard to the availability of credit in volatile markets.
- 2.2.5 Funds may be borrowed before they are needed where prudent to pay for the capital programme, fund debt maturities or refinance debt and other liabilities.

Interest rate/market risk

- 2.2.6 Developments in interest rates or market prices have the potential to produce both favourable and unfavourable outcomes. Impact on interest paid and received should be properly assessed, reported (in accordance with TMP 6 - reporting requirements and management information arrangements) and a prudent approach taken in managing exposure. Interest paid should be contained and interest received secured as is consistent with maintaining a prudent exposure to favourable market developments.

Refinancing risk

- 2.2.7 Financial obligations falling for refinance potentially raise uncertainty over financing terms and should therefore be managed so as to secure as favourable and competitive terms as are consistent with market conditions. Particular attention should also be given to potential risks to future funding sources and credit availability.

Inflation risk

- 2.2.8 Inflation may produce unfavourable financial outcomes on financial instruments and where material should be considered when formulating strategies and reflected in financial resources.

Exchange rate risk

- 2.2.9 Exchange rate developments have a direct impact on financial instruments denominated in a foreign currency and unfavourable financial outcomes, where material, should be contained.

Regulatory risk

- 2.2.10 Treasury activity should comply with statutory and regulatory requirements and the regulatory basis on which market participants intermediate or transact with the council should also be clear.
- 2.2.11 Impact of future legislative or regulatory changes should be assessed as far as is reasonably possible and material adverse effects managed in the interest of the authority.

Operational risk

- 2.2.12 Operational risk refers to potential for loss from errors, fraud, corruption or other incidences. High operational standards, good management and internal controls are a must in ensuring that risk of loss is very low.

2.3 **TMP 2 – Performance management**

- 2.3.1 Value for money in treasury management activities should be pursued and performance methodology used in support, within the framework set out in the treasury management policy statement (set out in appendix A).

2.4 **TMP 3 - Decision-making and analysis**

- 2.4.1 Records of major treasury management decisions together with supporting analysis and processes and practices followed should be kept.

2.5 **TMP 4 - Approved instruments, methods and techniques**

- 2.5.1 Only instruments, methods and techniques set out in schedules herein may be used and risks arising managed in accordance with TMP 1 (risk management).

2.6 **TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements**

- 2.6.1 Treasury activities should be structured in a fully integrated manner with clear responsibilities to ensure optimum performance, effective control and monitoring and reduction of risk from fraud or error.
- 2.6.2 There should therefore be a clear distinction between those charged with setting policies and implementing and controlling it, particularly in relation to

executing and transmitting funds, recording and administering decisions and auditing and reviewing activities.

2.6.3 The responsibilities of each treasury post-holder, including cover in the event of absence, should be clear and all those engaged in treasury should follow its policies and practices and also the Standard of Professional Practice on Treasury Management produced by CIPFA, where a member.

2.6.4 Transactions should be properly documented and proper arrangements put in place for funds transmission.

2.7 TMP 6 - Reporting requirements and management information arrangements

2.7.1 Reports on treasury management plans, strategies, performance, treasury indicators and financial implications on resources from regulatory, economic, or market developments should be prepared and considered.

2.7.2 As a minimum:

- the council assembly should receive an annual report on treasury strategy and plan for the coming year, a mid-year review, and an annual report on performance and any material non-compliance with policies or TMPs.
- the cabinet should receive regular monitoring reports, and
- the audit and governance committee should review policies and strategies

2.8 TMP 7 - Budgeting, accounting and audit arrangements

2.8.1 Costs and income associated with treasury management activity should be reflected in revenue budgets in compliance with the TMPs and accounted for in accordance with statutory requirements and accounting standards. Audits of treasury management should be carried out regularly and auditors given access to information necessary for their review.

2.9 TMP 8 - Cash and cash flow management

2.9.1 All cash held by the council should be under the control of the finance director and aggregated for investment purposes unless required otherwise under statute or regulation. Cash flow projections should be prepared to inform liquidity requirements.

2.10 TMP 9 - Money laundering

2.10.1 Arrangements should be in place to verify and record the identity of counterparties, and staff should be alert to risks from money laundering and report suspect transactions.

2.11 TMP 10 - Training and qualifications

2.11.2 Officers engaged in treasury management should be properly skilled to carry out their duties and training provided as necessary.

2.11.3 Members should also have access to any training necessary to carry their role under governance arrangements.

2.12 TMP 11 - Use of external service providers

2.12.1 It is recognised that treasury management may benefit for specialist skills and resources from outside the authority and where accessed should be evaluated for costs and benefits, and appointments subject to appropriate contractual terms and review.

2.13 TMP 12 – Corporate Governance

2.13.1 In the interest of good governance, treasury management should be conducted with openness, transparency, honesty, integrity and accountability. The adoption of the CIPFA's treasury management code's key recommendations is considered important to securing proper corporate governance, the effectiveness of which the finance director shall keep under review.

Schedules Supporting Treasury Management Practices

Schedule 1 - Risk management	
1	<p>Credit Risk</p> <p>The arrangements for managing credit risk and placing a high priority on capital preservation are set out in reports presented to council assembly under TMP 6 (reporting requirements and management information arrangements). A prudent approach is taken in managing exposure to investments cited under TMP 4 (approved instruments, methods and techniques).</p>
2	<p>Liquidity risk</p> <p>The reports presented to council assembly under TMP 6 (reporting requirements and management information arrangements) set out the main arrangements on investment maturities and also specify liquidity of instruments.</p> <p>A temporary overdraft facility with the council's clearing bank is also available and further sums may be borrowed from the money markets if needed.</p>
3	<p>Interest rate/market risks</p> <p>The reports presented to council assembly under TMP 6 (reporting requirements and management information arrangements) set out the main arrangements around interest rate/market risk.</p>
4	<p>Refinancing risk</p> <p>The main refinancing risk is from debt maturities and is addressed as necessary in analysis produced under TMP 6 (reporting requirements and management information arrangements).</p>
5	<p>Inflation and exchange rate risks</p> <p>Where these risks are material they are addressed under TMP 6 (reporting requirements and management information arrangements).</p>
6	<p>Regulatory risk</p> <p>The Local Government Act 2003 and regulations arising provides the main basis for treasury management. These are supported by guidance issued by the government and professional bodies (e.g. CIPFA) and accounting bodies.</p> <p>The council itself is subject to arrangements set out in its constitution and financial regulations.</p> <p>Market participants are subject to financial industry regulation and codes on wholesale markets.</p>
7	<p>Operational risk</p>

	<p>Treasury trades are captured in a transparent integrated corporate financial system with clear front and back office segregation. Additional controls are in place in relation to funds transmission and settlement instructions are verified before payment.</p> <p>Funds managed by external firms also have segregated operations, with settlement arranged through an independent custodian.</p> <p>Operations are subject to internal audit review.</p> <p>Operational risk is mitigated by insurance cover.</p>
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Schedule 2 – Performance measurement

1	Investment performance is compared against standard money market returns and benchmarks are used to inform performance. Performance is analysed under TMP 6 (reporting requirements and management information arrangements).
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Schedule 3- Decision-making and analysis

1	Records of decisions made by the council assembly and committees are supported by reports and analysis produced by the finance director and managerial decisions made under TMP 5 (organisation, clarity and segregation of responsibilities and dealing arrangements) are supported by relevant records and analysis.
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Schedule 4- Approved instruments, methods and techniques

1	Aside from statutory or regulatory constraints, the council is not limited as to what instruments, methods or techniques it may use in managing its treasury management affairs.
2	<p>The following instruments can be used, subject to their use being consistent with the risk management and funding requirements of the council when they are used.</p> <p>Investments:</p> <ul style="list-style-type: none"> - cash, call and deposit accounts, - money market funds and collective funds, - term deposits, callable deposits, certificates of deposits, and notes and bonds issued by financial institutions, - corporate bonds, - T-bills, gilts, sovereign and multilateral bonds, - bills of exchange, - investment facilities provided by the UK Debt Management Office. <p>Borrowing:</p> <ul style="list-style-type: none"> - overdraft facilities, - call and term borrowing, - borrowing facilities provided by the Public Works Loans Board, other government or multilateral body. - loans (including option embedded loans) provided by financial institutions - stock, bond or note issues - finance lease, deferred purchase, PFI/PPP and partnership funding - grants and contributions from the government or any other body

	- internal funding, including reserves, balances and capital receipts
3	Instruments proposed for use outside of the ones set out above must be supported by relevant analysis. Decisions on their use are made by the finance director in accordance with financial delegation as set out in the constitution and financial regulations and TMP 5 (organisation clarity and segregation of responsibilities and dealing arrangements).
4	<p>Treasury management activities/methods/techniques include, but not limited to:</p> <ul style="list-style-type: none"> - working capital and cash flow funding - investment management - capital and project financing - debt funding and refinancing - managing internal funds - banking arrangements - asset finance (e.g. leasing, PFI, PPP arrangements) and - forward borrowing and lending where prudent - fixed and variable rate funding and investments.

Schedule 5 - Organisation, clarity and segregation of responsibilities, and dealing Arrangements

1	<p>Certain decisions on borrowing levels are reserved to council assembly under statute and these are reflected in the council's own constitutional arrangements.</p> <p>The council assembly is also responsible for approving treasury management policies and strategies, including the investment strategy, prudential indicators, and the policy on revenue provision for debt repayment. Details of these responsibilities together with monitoring, review and scrutiny functions of other committees are set out in the council constitution.</p>
2	Under financial standing orders all executive and operational decisions on borrowing, credit finance and investment are delegated to the finance director and all treasury management decisions are his responsibility.
3	<p>Under a departmental scheme of management approved by the finance director certain operational decisions on treasury management are sub-delegated to members of his staff, who must comply with all treasury management requirements.</p> <p>Under the current scheme, the chief accountant may decide the term of borrowings and investments up to certain limits and nominated dealers have much less discretion.</p>
4	Treasury activity is processed through a back office, which is responsible for reviewing trades for authority and confirming compliance before authorising settlement and payment.
5	Payment clearance is subject to further segregation, requiring three levels of approvals.

6	Trades are captured and processed in the corporate financial system, SAP, and separation between front and back office processing is enforced through access restrictions. Counterparty data and trading restrictions are subject to a further approval process.
7	Absence cover is agreed by management.

Schedule 6 - Reporting requirements and management information Arrangements

1	The structure of reporting to council assembly and committees is set out in the council constitution.
2	Regular information on treasury performance and positions are produced for management and additional analysis is carried out as needed.

Schedule 7 - Budgeting, accounting and audit arrangements

1	<p>The income and expenditure consequences of treasury strategies and activities are reflected in revenue budgets.</p> <p>Accounting is reviewed by auditors and internal audits are carried out regularly. Both are given any information necessary for their review.</p>
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Schedule 8 - Cash and cash flow management

1	<p>A pooling arrangement is place across council bank accounts.</p> <p>Cash flow of major receipts and payment is prepared and the capital programme is studied for funding requirements.</p> <p>Investment maturities are organised to secure yield, having regard to cash requirements and credit risk.</p>
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Schedule 9 - Money laundering

1	Counterparty information is verified before trades are executed.
2	Guidance on money laundering is provided on the council's intranet and suspicions may be reported to the chief internal auditor.

Schedule 10 - Training and qualifications

1	<p>Dealing is limited to nominated individuals. Dealers have relevant treasury training and only once competent are they allowed to transact under supervision of senior treasury staff.</p> <p>Treasury staff may also study for further qualification.</p>
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Schedule 11 - Use of external service providers

1	The council currently uses external fund managers to manage investments under an investment brief complying with the council's strategy.
2	The council may consult firms specialising in advising on treasury management if needed.

Schedule 12 - Corporate governance

1	Governance arrangements are described under TMP 5 (organisation,
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	<p>clarity and segregation of responsibilities, and dealing arrangements). Reports produced under constitutional arrangements to council assembly, cabinet and audit and governance arrangements are available on the council's website.</p>
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APPENDIX A

Extract from Council assembly resolution, February 2010:

Southwark Council adopts CIPFA's updated Treasury Management in the Public Services Code of Practice published November 2009 and further agrees:

- a. *The council assembly shall 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 midyear review and an annual report after its close.*
- b. *The council assembly invites the Constitutional Steering Panel to consider which committee or Panel is best placed to monitor and scrutinise treasury management further. (See note 1)*
- c. *The council assembly delegates all strategic, executive, execution, administrative and operational decisions, including the creation and maintenance of treasury management practices to the finance director, who shall act in accordance with the treasury policy statement, referred to below, and if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.*
- d. *The council shall create and maintain:*
 - *a treasury management policy statement, stating the policies, objectives and approach to risk management 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.*
- e. *Southwark Council's adopts the treasury management policy statement and treasury management practices as set out below:*

i) TREASURY MANAGEMENT POLICY STATEMENT

- *treasury management is the management of the council'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.*
- *the council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities shall be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and recognise that effective treasury management shall provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.*

ii) TREASURY MANAGEMENT PRACTICES

The council's treasury management practices (TMPs) shall include:

- TMP 1 - Risk management*
- TMP 2 - Performance measurement*
- TMP 3 - Decision-making and analysis*
- TMP 4 - Approved instruments, methods and techniques*
- TMP 5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements*
- TMP 6 - Reporting requirements and management information arrangements*
- TMP 7 - Budgeting, accounting and audit arrangements*
- TMP 8 - Cash and cash flow management*
- TMP 9 - Money laundering*
- TMP 10 - Training and qualifications*
- TMP 11 - Use of external service providers*
- TMP 12 - Corporate governance*

Note 1:

In its 2010 review of the constitution, it was agreed that cabinet would be receive monitoring reports and that the audit and governance committee would be responsible for scrutiny and review of treasury policies and strategies.