

## Treasury Management Practices

### Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

#### 1 Purpose of Report

This report seeks Members' confirmation of the Main Principles of Treasury Management Practices (TMP) and reports on developments in investment strategy.

#### 2 Recommendations

The Committee is asked to:

- a) Confirm the Main Principles of Treasury Management Practices (attached as an appendix); and
- b) Note developments in the current investment strategy.

#### 3 Background

The Fire Authority formally adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) revised Code of Practice for Treasury Management in the Public Services in February 2002. This considers that it is best practice that TMP policy should be reviewed on an annual basis and formally updated as necessary.

Treasury Management is under the control of the Treasurer, who carries out operations in accordance with the Authority's Treasury Strategy, which is approved each year, and within guidelines based on the CIPFA Code of Practice.

The Treasurer was tasked with preparing Treasury Management Practices, together with schedules specifying the systems and routines to be employed, and the records to be maintained.

## **4 Current Position**

Treasury Management Practices and Schedules have been developed and updated – latterly in March 2008. Because the Authority employs Shropshire County Council (SCC) to provide its Treasury Management Services, these have been developed to complement those of SCC. In addition care is taken to ensure that those of SCC remain acceptable.

The TMP Main Principles of 2008 have been reviewed and are attached at the Appendix to this report. The schedules, which are detailed and extensive, are not shown but have been developed by the Treasurer and related to those of SCC.

Shropshire Council will be reviewing their TMP Principles and Practices after June and any changes that may have relevance to the Authority will be reported.

## **5 Summary**

Treasury Management is largely carried out through a Service Level Agreement with Shropshire County Council. The present agreement can run to November 2009 and can be extended by agreement for a further two years. The arrangements are working well and offer good value for money. Although there are some limitations on flexibility, these arise more from the size of funds and borrowing requirements rather than from the additional scope offered by employing specialist staff, and / or directly engaging advisors.

## **6 Investment Strategy Update**

The current investment strategy limits loans to those counterparties that satisfy a sufficiently high credit rating. At present most of the Authority's monies are invested with the Debt Management Office, and are secure but earning a very small return. Some funding is with other lenders, who satisfy the credit rating level, but a number of such institutions are not available to us because of minimum levels of loans that they will accept via brokers. In any case we would not want to put too large a proportion of our funds with one institution. The approach in future is likely to be to set the maximum amount of loan at, say, £2.0m to acceptable institutions, and explore ways that would enable lending smaller amounts, for instance via direct arrangement, rather than through the money market.

## **7 Financial Implications**

There are no direct financial implications arising from this report.

## **8 Legal Comment**

There are no direct legal implications arising from this report.

## 9 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

## 10 Appendix

Treasury Management Practices

## 11 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	*
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*

# **Treasury Management Practices**

## **Part 1: Main Principles**

**February 2009**

**Shropshire and Wrekin Fire and Rescue Authority**

## Treasury Management Practices

Treasury Management Practices (TMPs) set out the manner in which Shropshire and Wrekin Fire and Rescue Authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The Authority has a service level agreement with Shropshire County Council for the provision of banking and treasury management services. It agrees that the County Council, as Treasury Management Services Supplier, maintains its cash balances and undertakes investment and borrowing on its behalf. In practice, therefore, the Authority must ensure that the Council's TMP's are acceptable and in accordance with its own TMP's.

Part 1 of Treasury Management Practices sets out, in summary, the principles of treasury management, to which this Authority will adhere.

Part 2 sets out the detailed procedures to be followed under the following headings:

- TMP 1 Treasury risk management**
- TMP 2 Best value and 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 Staff training and qualifications**
- TMP 11 Use of external service providers**
- TMP 12 Corporate governance**

## TMP1 Treasury Risk Management

“The Treasurer will, in consultation with the provider of Treasury Management Services (PTMS) design, implement and monitor all arrangements for the identification, management and control of treasury management risk. He/she 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 Authority’s objectives in this respect. Such action will be 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 in the schedule to this document.”

### [1] Liquidity risk management

“Shropshire and Wrekin Fire and Rescue Authority (SWFA) will ensure that 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, which are necessary for the achievement of its business/service objectives.”

### [2] Interest rate risk management

“SWFA will manage any exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements, as amended in accordance with *TMP6 Reporting requirement and management information arrangements*.

### [3] Exchange rate risk management

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

### [4] Inflation risk management

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 Authority as an integral part of its strategy for managing its overall exposure to inflation.

SWFA will achieve these objectives 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, exchange rates or inflation. The above is subject at all times to the consideration and, if required, approval of any policy or budgetary implications.”

**[5] Credit and counterparty risk management**

“SWFA regards a prime 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 schedule to this document. 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.”

**[6] Refinancing risk management**

“SWFA will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Authority as can reasonably be achieved in the light of market conditions prevailing at the time.

SWFA 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.”

**[7] Legal and regulatory risk management**

“SWFA 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 under *TMP1.5 Credit and counterparty risk management*, it will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

SWFA 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 Authority.”

**[8] Fraud, error and corruption, and contingency management**

“SWFA 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.”

**[9] Market risk management**

“SWFA 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.”

**TMP2 Best Value and Performance Measurement**

“SWFA 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 Authority’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. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.”

**TMP3 Decision-Making and Analysis**

“SWFA 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 schedule to this document.”



#### **TMP4 Approved Instruments, Methods and Techniques**

“SWFA will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1, *Risk management*.”

#### **TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements**

“SWFA 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 Treasury Management 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 SWFA intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer 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 Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedules to the “Main Principles of Treasury Management Practice” notified to SWFA by the PTMS.

The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedules to the “Main Principles of Treasury Management Practice” notified to SWFA by the PTMS.

The delegation to the Treasurer in respect of treasury management is set out in the schedule to this document. The Treasurer will fulfill all such responsibilities in accordance with the Authority’s policy statement and TMPs and, if a CIPFA (Chartered Institute of Public Finance and Accountancy) member, the Standard of Professional Practice on treasury management.”

## **TMP6 Reporting Requirements and Management Information Arrangements**

“SWFA 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 Authority will receive:

- 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, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Authority’s Treasury Management Policy Statement and TMPs
- an annual investment strategy, setting out the procedures for determining the use of each class of investment and appropriate limits to be applied to each class.

The present arrangements and the form of these reports are detailed in the Part 2 schedules to this document.”

## **TMP7 Budgeting, Accounting and Audit Arrangements**

“The Treasurer will prepare, and SWFA 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. 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 Best value and performance measurement, and TMP4 Approved instruments, methods and techniques. The form, which SWFA’s budget will take, is set out in the schedules to this document. The Treasurer 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.

SWFA 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. The present form of SWFA’s accounts is set out in the schedules to this document.

SWFA 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 as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedules to this document.”

### **TMP8 Cash and Cash Flow Management**

“Unless statutory or regulatory requirements demand otherwise, all monies in the hands of SWFA will be under the control of the Treasurer, 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 Treasurer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedules to this document.

### **TMP9 Money Laundering**

“SWFA 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 ensure that the PTMS maintains procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedules to the “Main Principles of Treasury Management Practices” notified to SWFA by the PTMS.”

### **TMP10 Staff Training and Qualifications**

“SWFA 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 or external providers, 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 Treasurer will recommend and implement the necessary arrangements or be satisfied with those of an external provider. The present arrangements of the PTMS are detailed in the schedules to the “Main Principles of Treasury Management Practices notified to SWFA by the PTMS.”

### **TMP11 Use of External Service Providers**

“SWFA 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, it will ensure it does so for reasons, which will 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 it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one company 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 Treasurer, and details of the current arrangements are set out in the schedules to this document.

### **TMP12 Corporate Governance**

SWFA 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.

SWFA has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management. The Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.”

The Authority is required under Regulation 4 of the Accounts and Audit Regulations 2003 to be responsible for ensuring that the financial management of the organisation is adequate and effective and that it has a sound system of internal control that facilitates the effective exercise of the Authority’s functions, including arrangements for the management of risk. SWFA carries out an annual review of the effectiveness of its system of internal control and produces a statement on internal control / Annual Governance Statement, prepared in accordance with proper practices within the annual statement of accounts.