

Report to the Audit & Governance Committee



**Epping Forest
District Council**

Date of meeting: 13th February 2023

Portfolio: Finance, Qualis Client & Economic Development

Subject: Treasury Management Policy & Practice

Responsible Officer: Andrew Small (01992 564278)

Democratic Services: Laura Kirman (01992 564243)

Recommendations/Decisions Required:

- (1) To consider and recommend for approval by full Council, the updated Treasury Management Policy Statement (**Appendix A, Sections 1 & 2**); and
- (2) To consider and comment upon the proposed approach to the development of updated Treasury Management Practices (TMPs) and new Investment Management Practices (IMPs) in accordance with recommended good practice (**Appendix A, Sections 3 & 4**).

Executive Summary:

CIPFA's recently updated Treasury Management in the Public Services: Code of Practice (2021 Edition) (the Code) requires the Council to create and maintain, as the cornerstones for effective Treasury Management:

- 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 how the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities; and
- Investment Management Practices (IMPs) for investments that are not for Treasury Management purposes.

The purpose of this report is to present for consideration an updated Treasury Management Policy Statement, reflecting the requirements of the 2021 Treasury Management Code. The report also presents for Committee, the current position on the development of updated Treasury Management Practices (TMPs) and new Investment Management Practices (IMPs) for Investments that are not part of Treasury Management activity.

See **Appendix A** for a detailed discussion on both Treasury Management policy and practice.

Reasons for Proposed Decision:

To enable the robust scrutiny the Council's Treasury Management function, ensuring in particular, future compliance with CIPFA's updated Treasury Management Code of Practice (2021 edition) and developing best practice.

Legal and Governance Implications:

The Local Government Act 2003 requires local authorities in England to "have regard" for the Prudential Framework, two parts of which comprise the Treasury Management Code and the Prudential Code (see Background Papers below).

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

Treasury Management in the Public Services: Code of Practice (2021 Edition) (published by CIPFA December 2021)

The Prudential Code for Capital Finance in Local Authorities (2021 Edition) (published by CIPFA December 2021).

Risk Management:

There are a range of inherent financial risks associated with Treasury Management activity; not least the potential for loss of interest and/or deposits. The Council therefore engages the services of external Treasury Management advisors, Arlingclose Ltd.

The Council also maintains a detailed set of Treasury Management Practices (TMPs), with "TMP1" in particular, covering Risk Management.

Treasury Management Policy & Practice

1. INTRODUCTION AND BACKGROUND

- 1.1 Epping Forest District Council (the Council) adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (2021 Edition) (the Code), as described in Section 5 of the Code.
- 1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective Treasury Management:
 - 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 how the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities; and
 - Investment Management Practices (IMPs) for investments that are not for Treasury Management purposes.
- 1.3 Full Council will receive reports on its Treasury and Investment 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 and IMPs.
- 1.4 In accordance with its Scheme of Delegation, the Council delegates responsibility for the implementation and monitoring of its Treasury Management policies and practices to the Portfolio Holder for Finance and for the execution and administration of Treasury Management decisions to the Section 151 Officer, who will act in accordance with the Council's Policy Statement and TMPs, IMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5 The Council nominates the Audit and Governance Committee to be responsible for ensuring the effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

- 2.1 Epping Forest District Council defines its Treasury Management activities as the management of the Council's borrowing, investments, and cash flows, including 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.
- 2.2 Epping Forest District Council 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 Council, and any financial instruments entered into, to manage these risks.

- 2.3 Epping Forest District 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 2.4 Epping Forest District Council's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source of borrowing and the type of borrowing should allow the Authority transparency and control over its debt.
- 2.5 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 2.6 Epping Forest District Council's priority in relation to its Treasury Investments is the security of capital and liquidity (or accessibility) of these investments.
- 2.7 The Council's objective when investing treasury money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve, where appropriate, a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.

3. TREASURY MANAGEMENT PRACTICES (TMPs)

- 3.1 Section 7 of the Code 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:
 - TMP1 Risk management
 - TMP2 Performance measurement
 - TMP3 Decision making and analysis
 - TMP4 Approved instruments, methods, and techniques
 - TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements
 - TMP6 Reporting requirements and management information arrangements
 - TMP7 Budgeting, accounting, and audit arrangements
 - TMP8 Cash and cash flow management
 - TMP9 Money laundering
 - TMP10 Training and qualifications
 - TMP11 Use of external service providers; and
 - TMP12 Corporate governance.

3.2 The requirement to operate a specified set of TMPs is not new, having been introduced in CIPFA's original Treasury Management Code of Practice back in 2001/02; Epping Forest District Council adopted relevant TMPs at the time, and the underlying principles and procedures have been operated ever since. However, there are some minor modifications to the TMPs in the 2021 Code and industry best practice has developed significantly over the last two decades. It is therefore timely that the Council should review, develop (where necessary), and document local Treasury Management practice and procedure. That review has now commenced and will result in a detailed set of draft TMPs for the consideration of this Committee in September 2023. The following paragraphs (3.3 to 3.15) provides an indication of the content of each specific TMP.

TMP1 RISK MANAGEMENT

3.3 This 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 robust due diligence procedures cover all external investments. The Section 151 Officer 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 Council's objectives in this respect. Specific arrangements will seek to ensure compliance with these objectives in respect of each of the following risks:

- A) Credit and Counterparty Risk – this includes ensuring that counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made.
- B) Liquidity Risk – ensuring adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to enable at all times to have the level of funds available that are necessary for the achievement of business/service objectives.
- C) Interest Rate Risk – managing exposure to fluctuations in interest rates with a view to containing net interest costs or revenues in accordance with Treasury Management Policy and Strategy
- D) Exchange Rate Risk – managing exposure to fluctuations in exchange rates so as to minimise any detrimental impact on budgeted income/expenditure levels.
- E) Inflation Risk – keeping under review the sensitivity of Treasury assets and liabilities to inflation and seeking to manage the risk accordingly in the context of the whole Council's inflation exposure.
- F) Refinancing Risk – ensuring that borrowing and other long-term liabilities are negotiated, structured, and documented, and the maturity profile of the money raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, that are competitive and as favourable to the Council as can reasonably be achieved in light of market conditions prevailing at the time.
- G) Legal and Regulatory Risk – ensuring that all Treasury Management activities comply with the Council's statutory powers and regulatory requirements.
- H) Operational Risk, including Fraud, Error, and Corruption – ensuring that all circumstances are identified that could expose the Council to the risk of loss, through inadequate or failed internal processes, people, and systems or from external events.

- l) *Price Risk Management* – seeking to ensure that stated Treasury Management policies and objectives will not be compromised by adverse market fluctuations in the value of the sums invested and accordingly seeking to protect the Council from the effects of such fluctuations.

TMP2 PERFORMANCE MEASUREMENT

- 3.4 This Council is committed to the pursuit of value for money 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 service objectives.

TMP3 DECISION MAKING AND ANALYSIS

- 3.5 This 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 accountability.

TMP4 APPROVED INSTRUMENTS, METHODS, AND TECHNIQUES

- 3.6 This Council will undertake its Treasury Management activities by employing only specified instruments, methods, and techniques, and within clearly defined limits and parameters.

TMP5 ORGANISATION, CLARITY, AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

- 3.7 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.
- 3.8 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.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

- 3.9 This Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management policies; the effects of decisions taken, and transactions executed in pursuit of those policies; the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the Treasury Management function.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- 3.10 The Section 151 Officer will prepare – and this 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.

TMP8 CASH AND CASH FLOW MANAGEMENT

- 3.11 Unless statutory or regulatory requirements demand otherwise, all money in the hands of this Council will be under the control of the Section 151 officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis.

TMP9 MONEY LAUNDERING

- 3.12 This 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.

TMP10 TRAINING AND QUALIFICATIONS

- 3.13 This 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.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

- 3.14 The Council recognises that responsibility for Treasury Management decisions remain with the Council at all times. It also recognises that there may be potential value in 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 that have been submitted to a full evaluation of the costs and benefits.

TMP12 CORPORATE GOVERNANCE

- 3.15 This Council is committed to the pursuit of proper corporate governance throughout its 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.

4. INVESTMENT MANAGEMENT PRACTICES (TMPs) FOR INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

- 4.1 Investments for Treasury Management purposes (or “Treasury Management Investments”) are those investments that arise from the Council’s cash flows or Treasury Risk Management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

- 4.2 Investments for Commercial purposes (or “Commercial Investments”) are taken or held primarily for financial return and are not linked to Treasury Management activity or directly part of delivering services. This includes non-financial assets such as Commercial Property, where they are held primarily for financial return.
- 4.3 Investments for Service purposes (or “Service Investments”) are taken or held primarily for the provision and for the purposes of delivering public services (including Housing, Regeneration and Local Infrastructure), or in support of joint working with others to deliver such services. Service Investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.
- 4.4 The requirement to operate a specified set of Investment Management Practices (IMPs) is a new requirement of the 2021 Code. As with TMPs noted above (in Paragraph 3.2), a review has now commenced, which will result in a set of draft IMPs for the consideration of this Committee in September 2023. The following paragraphs (4.5 to 4.7) briefly considers IMPs.

INVESTMENT MANAGEMENT PRACTICES (IMPs)

- 4.5 The Section 151 officer will categorise non-Treasury Management investments and plans into appropriate portfolios (or individual major investments) reflecting the different purposes, objectives and management arrangements of the investments and covering all the Council’s financial investments, together with any non-financial assets that are held primarily for financial return (e.g., Commercial Property).
- 4.6 Each such portfolio (or major investment) will have clearly set out investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.
- 4.7 The risk appetite for these activities may differ from that for Treasury Management.