



Arlingclose Ltd:
Independent treasury management services

Treasury Shorts

Workshop 2 - Treasury Management Documentation

May 2021

The webcast will begin at 9.30am

Please ensure you have:

- The speakers on your computer turned on
- Webcast Microphone muted
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For questions please use the chatbox (top righthand of your screen). We will answer questions at regular intervals, but please ask through the chatbox as they occur to you for ease of administration

Today's Agenda

Treasury Management Documentation

- a. Treasury Policy Statement
 - b. Treasury Management Practices (TMPs)
 - c. Treasury Strategy Statement
 - d. Treasury Reporting
-

Questions

This document is strictly confidential and is intended for Arlingclose clients only. The document contains professional and privileged information and must not be disclosed to any third party without written permission of Arlingclose Ltd.

Treasury Management Documentation

The purpose of the documents is to:

Formalise the three key TM Code principles

Outline how your authority will manage and control treasury activities, including having clear and comprehensive:

- Objectives
- Policies and practices
- Strategies
- Reporting arrangements

Should detail the risk management framework and who has responsibility for managing the risks

Show how the authority will pursue optimum performance and value for money consistent with the risks being taken

Formalise how you engage with external bodies



Treasury Management Documentation

TM documents should demonstrate:

- The appropriateness of your treasury objectives
- Your risk awareness in meeting those objectives
- That the authority has a proper audit trail

Every public body should create and maintain:

- Treasury Management Policy Statement (*outlined on page 11 of TM Code*)
- Treasury Management Practices ('TMPs')
- Non-Treasury Investment Practices
- Treasury Management Strategy Statement (prepared each year)
- Treasury Management Indicators (TMIs) for treasury risks

Full Council generally only receives the following reports:

- Treasury Management Strategy Statement
- Treasury Management Activity Reports - mid-year and end-of-year (as a minimum)

Your reports may go through varying committees

- For example - Cabinet/Executive, Audit, Scrutiny/Governance

Treasury Management Policy Statement

- A short high-level statement, no more than 1-2 pages setting out your treasury management objectives (*see page 11 of 2017 edition of TM Code*)
- Must be adopted by Full Council and generally does not change from year to year
- The policy
 - Defines TM activities (e.g. management of investments and cash flows, banking, money market and capital market transactions, control of risk, and pursuit of optimum performance consistent with risks taken)
 - Recognises that identifying, monitoring, and controlling of risk are the prime criteria by which the effectiveness of TM activities will be measured
 - Acknowledges that effective TM provides support to business and service objectives, and also offers value for money

It should also includes your Authority's high level principles/policies for:

- Borrowing (e.g. should be prudent, affordable, sustainable)
- Investments (should be prudent, **S-L-Y** principle: Security and Liquidity are the prime objectives, Yield is next and should be commensurate with security and liquidity)

Treasury Management Practices (TMPs)

- This is an internal working document and doesn't require member approval
- Contains 'Principles' and 'Schedules'
- Principles - are the main tenets and provided by CIPFA (in TM Code pages 14-20)
 - Example - liquidity risk - 'The Council will ensure 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 to it which are necessary for the achievement of its business/service objectives'
- Schedules - provide general background and detail how the principles will be applied to your authority (suggestions on detail are in the Guidance Notes to the TM Code)
- TMPs outline your Authority's TM framework, including
 - Systems and procedures
 - Records and reporting

Treasury Management Practices (TMPs)

CIPFA recommends that TMPs should include the following that are relevant to the Authority's treasury management powers and scope of TM activities

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 requirements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 (Anti) Money laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

CIPFA TM Code consultation - inclusion of TMP covering Environmental, Social and Governance Risk Management

TMP 1 - Risk Management

TMP 1 is the most detailed - it will be covered fully in next week's Treasury Shorts

Risk management is the most significant issue a treasury practitioner has to consider

- 1. Credit and counterparty risk management**
 - Where your funds are invested, your investment limits
 - Criteria for creditworthiness
- 2. Liquidity risk management**
 - Ensuring you have cash when you need it
 - Hold adequate, but not excessive cash
- 3. Interest rate risk management**
 - Managing exposure to fluctuations in interest rates
- 4. Exchange rate risk management**
- 5. Inflation risk management**
- 6. Refinancing risk management**
 - Ensuring borrowing is properly negotiated and structured
- 7. Legal and regulatory risk management**
- 8. Fraud, error and corruption, and contingency management**
- 9. Price risk management**
 - Ensuring investment objectives are not compromised by adverse market fluctuations

TM Strategy Statement (incl. Investment Strategy)

TMSS should contain details of your Authority's proposed treasury activities and risk management activities

TMSS is determined each year before the start of the financial year

- Generally prepared alongside Budget and is approved by Council

Is forward-looking and details your proposed TM activities for the year(s) ahead

- Sets out your current position, a plan of where you intend/want to be, and provides an outline of how you propose to achieve the plan, including outlining the potential risks

Document sets out the Authority's:

- Borrowing requirement, use of internal resources, cash sums available for investment
- Liquidity requirements
- Assessment of interest rate expectations
- Borrowing and investment strategies
- Risk thresholds which have been set and how they will be monitored and managed
- TM indicators - (i) interest rate exposures (ii) maturity structure of borrowing (iii) principal sums invested longer than a year. Voluntary indicators - credit risk, liquidity risk

Treasury Activity Reports

Treasury activity review reports - as a minimum you should prepare:

- Semi-annual treasury activity report
- Annual treasury activity report

Reports should detail:

- Activities undertaken, including their context against the economic/credit background
- Any variations from the strategy and reasons for the variation (if any)
- Transactions executed (full details or summarised) and their revenue effects (short and long-term effects)
- Risk implications of the decisions taken and transactions executed
- Treasury performance
- Performance/outturn relative to treasury management indicators
- Compliance with agreed policies/practices/Codes

Reports should contain meaningful information and commentary on your treasury activities and their risk implications

TMP Schedule for Non-Treasury Investments

- In addition to TM investments, where authorities make investments in financial assets and property primarily for financial return, the investments should be proportional and subject to robust risk and return considerations
- Non-treasury investments made primarily for financial return include loans supporting services, investments in subsidiaries and investment property portfolios
- Non-treasury investments are covered in the Capital Strategy, Investment Strategy or equivalent
- Authority should outline the procedures for considering risk and return, the risk appetite (could be different to TM), specific policies and other arrangements for non-treasury investments
- State where a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees can be found

Workshops and dates in this series

- Tuesday 4th May 2021 at 9:30am: *CIPFA Treasury Management Code*
- Tuesday 11th May 2021 at 9:30am: *Treasury Management documentation*
- **Tuesday 18th May 2021 at 9:30am: *Treasury Management Risks - TMP 1 (overview)***
- **Date TBC: *What is Credit risk and Bail-in risk?***
- **Date TBC: *Credit Ratings and Credit Default Swaps***
- **Date TBC: *Liquidity Risk Management, Cash Flow and its Forecasting***
- **Date TBC: *Lending to Financial Institutions (banks and building societies) and Local Authorities***
- **Date TBC: *Money Market Funds***
- **Date TBC: *Dealing (Borrowing and Lending); Transacting with Other Local Authorities***
- **Date TBC: *Borrowing Sources, Types of Loans, Maturity Profile***
- **Date TBC: *Borrowing from HM Treasury's PWLB Lending Facility***

Each webcast will also be recorded and available on the Arlingclose website to view at your convenience.

Notes
