CIPFA The Chartered Institute of Public Finance & Accountancy

treasury management

in the Public Services

Code of Practice and Cross-Sectoral Guidance Notes

20~~17~~21 Edition

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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SECTION 1

Introduction

This *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (the Code) represents a revision of the 201~~1~~7 Code. It introduces strengthened requirements for skills and training, and for investments which are not for specifically treasury management purposes.

~~This Code has been reviewed and updated following recent developments in the marketplace and the introduction of the Localism Act 2011 for English local authorities.~~

There is no universally agreed or formal definition of the public services. For the purposes of this Code and its accompanying guidance notes, public services have been taken to include those organisations which are, in terms of government expenditure classification, the public sector, together with certain other organisations which are materially reliant on government funding or subsidy, and/or have significant social, democratic or political influences on their activities.

Specifically, the Code and guidance notes have been designed to be primarily for the use of local authorities, police and crime commissioners, and fire and rescue authorities, registered social landlords or registered providers of social housing under the social housing regulatory framework, higher and further education institutions, and the National Health Service.

Within these organisations, CIPFA recognises that there is a wide range of interpretations of what activities comprise treasury management. For the purposes of this Code and accompanying guidance notes, CIPFA has adopted the following as its definition of treasury management activities:

The management of the organisation'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.

This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

There are substantial variations between different parts of the public services in the nature of and extent to which they employ treasury management activities and techniques in pursuit of their business and service objectives. These variations are primarily a function of the respective statutory and regulatory regimes under which they operate, the powers they possess in respect of treasury management, and the services and businesses they pursue. Nothing in this Code overrides or should be taken as overriding statutory provision. Nor does the Code make intra vires anything that is otherwise ultra vires.

'Investments' in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as commercial~~investment~~ property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under this Code.

The essentially more commercial nature of some public service organisations has the potential to create pressures and perhaps conflicts in their treasury management activities. These differences are explained more fully in the sector-specific guidance notes. However, the key principle of control of risk and optimising returns consistent with the organisation's risk appetite should be applied across all investment activities, including more commercially based investments.

CIPFA recognises that many organisations will find that certain parts of this publication are not relevant to the scope and nature of their treasury management activities. It believes, however, that the recommendations made in the Code provide a basis for all public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

The guidance notes serve three functions:

- First, they provide general background and explanatory information on the issues raised and recommendations made in the Code.
- Second, they give suggestions for schedules to accompany the Code's recommended treasury management practices.
- Third, they draw attention to features of treasury management that are particular to those individual parts of the public services covered by the Code.

CIPFA gratefully acknowledges the contributions made by the many organisations and individuals who assisted during the preparation of the Code and guidance notes. Responsibility for their contents rests solely with CIPFA, **and they should not be relied on by any third party in their treasury management dealings with public service organisations, nor as an authoritative interpretation of law.**

While the Code has wide-ranging support of various bodies, the **application and maintenance of these recommendations is the responsibility of the organisations themselves.**

SECTION 2
Purposes

CIPFA has produced this Code and the accompanying guidance notes to help satisfy nine main purposes:

1 To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.

2 To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.

3 To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.

4 To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.

5 To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and~~, in accordance with the members' charter, "~~ to maintain and develop the professional competence of both themselves and those they supervise~~"~~.

6 To help facilitate a standardisation and codification of treasury management policies and practices in the public services.

7 To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.

8 To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.

9 To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

SECTION 3

Status

The Code has the support of a wide range of organisations.

In the case of local authorities in England and Wales, the Code has a particular significance under the provisions of the Local Government Act 2003. This requires local authorities *"to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify"*. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in paragraph 24 require local authorities to have regard to this guidance. In Scotland, Finance Circular 5/2010[1] requires local authorities to *have regard* to the Code.

The Local Government Association has expressed strong support for the Treasury Management Code. It is encouraging the good practice set out in the Code.

The Chartered Institute of Housing is happy to support the Treasury Management Code, recognising that it is suitable for adoption by local authorities as housing owners and managers, their arm's-length management organisations and housing associations.

The recommendations in the Code are similarly relevant to cash handled in respect of an organisation's pension fund, trust or endowment fund cash.

Nothing in this Code overrides or should be taken as overriding statutory provision. Nor does the Code make intra vires anything that is otherwise ultra vires.

The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

CIPFA recognises that some organisations may not find the Code's recommended or proposed forms of wording to be precisely suitable to their circumstances. An organisation may, where it can justify doing so, make alterations to the recommended or proposed wording without adversely affecting its stated adoption of the Code, so long as, when taken as a whole, those alterations do not result in an organisation materially deviating from the Code's key principles as described in Section 4.

The accompanying guidance notes include explanations of the Code's recommendations and contain supporting suggestions. They are not prescriptive.

CIPFA has also published *Treasury management in the public services: guidance notes for local authorities.* The prudential indicators included in those guidance notes form part of this statutory guidance to which authorities must 'have regard'.

1. Finance Circular 5/2010 The Investment of Money by Scottish Local Authorities (The Scottish Government, 2010).

In April 20~~17~~21 the Bank of England updated its~~introduced a~~ UK Money Markets Code that was originally published in 2017.~~supersedes and substantively updates the Non-Investment Products Code (NIPs Code) and other earlier guidance. It has been drawn up by a wide cross-section of market practitioners in a sub-group of the Bank of England's Money Markets Committee. Like its predecessor, the new~~The Code, which is market guidance, has no statutory underpinning; and there are no arrangements for supervision or enforcement. CIPFA commends the UK Money Markets Code to its members as good practice to which they should adhere. Copies of the UK Money Markets Code can be obtained from the Bank of England's website.

SECTION 4

Key principles

This Code identifies three key principles.

KEY PRINCIPLE 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

KEY PRINCIPLE 2

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

KEY PRINCIPLE 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, while at the same time pursuing value for money. This Code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector-specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner; but success in ~~this~~the area of effective treasury risk management should~~is likely to~~ be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function.

It is CIPFA’s view that throughout the public services the priority for treasury management is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.

SECTION 5

Clauses to be formally adopted

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1 This organisation 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 the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
   - Investment Management Practices (IMPs) for investments which are not for treasury management purposes,~~.~~

   The content of the policy statement,~~ and~~ TMPs and IMPs will follow the recommendations contained in Sections 6,7 and 8~~ and 7~~ of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2 This organisation (ie full board/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 and IMPs.

3 This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to [note 1], and for the execution and administration of treasury management decisions to [note 2], who will act in accordance with the organisation's policy statement, TMPs and IMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4 This organisation nominates [note 3] to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Note 1: name of responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as cabinet or executive. Where a capital strategy is produced by a local authority this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full council.

Note 2: title of responsible officer (for the purposes of this Code, the term 'responsible officer' has been used, although it is recognised that, in practice, many different terms exist). For example in higher education, the vice-chancellor/principal or equivalent is the 'designated officer' who will ensure that the governing body complies with all terms and conditions of funding provided by the funding body. However it is usual for day-to-day financial management to be delegated to a director of finance who will take professional responsibility for such areas of an institution's work and this is the officer who is referred to here.

Note 3: name of responsible body (for example, committee, board or council) or nominated group of individuals or relevant committee such as audit committee or relevant scrutiny committee.

SECTION 6

The treasury management policy statement

CIPFA 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 This organisation defines its treasury management activities as:
The management of the organisation'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 This organisation 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 organisation, and any financial instruments entered into to manage these risks.

3 This organisation 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.

The policy statement should include the organisation's high level policies for ~~borrowing and investments~~treasury management.

SECTION 7

Treasury management practices

CIPFA 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 management activities:

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

TMP12 Corporate governance

~~TMP13 Environmental, Social and Governance risk management~~

It is expected that the following forms of words will be suitably amended to reflect an organisation's particular circumstances in defining its TMPs. Specific details of the systems and routines to be employed and the records to be maintained should take the form of schedules to their TMPs. Suggestions on the detail of what might be included in these schedules are given in the accompanying guidance notes.

General background information about each of the above practices, and the particular circumstances of each part of the public services covered by this Code, is also given in the guidance notes.

The nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision. CIPFA recognises that in some organisations this may be delegated to the responsible officer. In all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer.

TMP1 RISK MANAGEMENT

General statement

This organisation 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 investment.

The responsible 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 organisation's objectives in this respect, all 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] Counterparty credit ~~and counterparty~~ risk management

This organisation will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made, and will limit its treasury management 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 or derivative arrangements. This will set out the organisation's policy and practices relating to environmental, social and governance (ESG) investment considerations.

[2] liquidity risk management

This organisation 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.

This organisation will ~~only~~not borrow earlier than required to meet cashflow needs ~~in advance of need where~~ unless there is a clear business case for doing so, and will only do so for the current capital programme~~, or~~ to fund future debt maturities, or to ensure an adequate level of short term investments to provide liquidity for the organisation.

[3] interest rate risk management

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its ~~interest costs, or securing its~~ net interest costs or revenues~~,~~ in accordance with ~~the amounts provided in its budgetary arrangements as amended~~ its treasury management policy and strategy and in accordance with TMP6 *Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved 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. This should be subject to the consideration and, if required, approval of any policy or budgetary implications. It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

[4] exchange rate risk management

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

[5] inflation risk management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

[6] refinancing risk management

This organisation will ensure that its borrowing and ~~, private financing~~other long term liabilities ~~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 organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

[7] legal and regulatory risk management

This organisation 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[1] *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.

This organisation 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~~manage the risk of these impacting adversely on the organisation.

[8] operational risk, including fraud, error and corruption~~, and contingency management~~

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events.~~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] price risk management

This organisation 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 PERFORMANCE MEASUREMENT

This organisation 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 organisation'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. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

TMP3 DECISION MAKING AND ANALYSIS

This organisation 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, eg. 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

This organisation 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*.

Where this organisation intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

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

This organisation 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.

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 this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer 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 responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The responsible officer 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 schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and 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 organisation (ie full board/council) will receive:
  - an annual report on the strategy and plan to be pursued in the coming year
  - a mid-year review
  - 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 organisation's treasury management policy statement and TMPs.
- The board/council, or the committee to which some treasury management responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks.
- The body responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.
- Local authorities should report the treasury management indicators <u>and any other investment indicators required by regulation</u> as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare, and this organisation 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. 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 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer 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*.

This organisation 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.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer, 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 responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *liquidity risk management*, and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate). The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

This organisation 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. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 TRAINING AND QUALIFICATIONS

This organisation 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. The responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.~~.~~

~~This organisation will document a formal and comprehensive Knowledge and Skills or Training Policy for the effective acquisition and retention of Treasury Management knowledge and skills for those responsible for the management, delivery, governance and decision-making and compliance with legislative requirements.~~

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements, including a knowledge and skills schedule, are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It 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 which have been submitted to a 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 overreliance on one 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 responsible officer, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

This organisation 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 treasury management activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This organisation has adopted and has implemented the key principles 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, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

~~TMP13 ENVIRONMENTAL SOCIAL AND GOVERNANCE RISK MANAGEMENT~~

~~General statement~~

~~This organisation regards a key objective of its treasury management activities to be the regard of the impact of Environmental, Social and Governance risks on the principle sums it invests. Accordingly, it will ensure that a framework for due diligence cover all external investment.~~

~~The responsible officer will establish, implement and monitor all arrangements for the identification, management and control of Environmental, Social and Governance risks, will report at least annually on adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the~~

~~organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.~~

~~The organisation has arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.~~

~~ESG counterparty risk management~~

~~This organisation will ensure that its counterparty lists and limits consider Environmental, social and Governance risks attributed to organisations with whom funds may be deposited, and will limit its treasury management 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 or derivative arrangements.~~

SECTION 8

Investments that are not part of treasury management activity

The definition of treasury management includes all the investments of the organisation. This may include investment activity which is outside the purposes of normal treasury management. Public service organisations may have investments for various purposes:

Investments for treasury management purposes (or treasury management investments) are those investments that arise from the organisation's cash flows or treasury risk management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

- This may include an allowance for a reasonable level of short term investments to provide access to liquidity.
- This may also include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, in order to reduce financing and interest rate risks.
- Treasury management investments should always be on commercial terms and will rarely constitute capital expenditure for local authorities.
- For organisations with long term surplus cash, this category may include long term investments such as equities, bonds and property, whether accessed through a fund or directly, but unless an explicit link to cash flow management can be demonstrated, these should normally be classified as commercial investments.

Investments for commercial purposes (or commercial investments) are long term investments 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 which are held primarily for financial return such as commercial property.

For local authorities, investments of this type will usually constitute capital expenditure.

- 'commercial' in this context refers to the purpose of the investment. Investments taken for treasury management purposes should also be made on commercial terms, but investments taken for 'commercial' purposes refers to the reason why the investment was made. Commercial investments are not taken to meet treasury management cashflow or risk management needs, but are additional investments voluntarily taken in order to generate net financial return or profit.

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.
- For local authorities, service investments will normally constitute capital expenditure and it may be appropriate to borrow to finance service investments.

Code requirements

For the purposes of reporting under this Code, any investments which are not taken or held for treasury management purposes, as described above, should be clearly identified and reported in appropriate categories reflecting their service or commercial purposes. For each category, the various purposes, objectives and management arrangements of the investments should be described. The level of risk and the arrangements for managing it should be set out.

Treasury management policy statements, treasury and investment strategies, half year reports and year end reports should address all of the organisation's financial investments, including those which are not treasury management investments, as well as any non-financial assets held primarily for financial return (such as commercial property).

Organisations should apply an appropriate investment risk management approach across all non-treasury management investments (taking account of any differing purposes and objectives of individual portfolios). The Investment Management Practices below set out a framework to be applied to all non-treasury investments.

Where, in addition to treasury management investment activity, organisations invest in 'commercial investments' including property or other financial assets ~~and property~~ primarily for financial return, the risks associated with investment should be proportionate to the organisation's financial capacity – ie that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. ~~these investments should be proportional to the level of resources available to the organisation and t~~The organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

Local authorities must not borrow to invest for the primary purpose of financial return. Other public service organisations may decide that the same principle concerning the prudent use of public funds also applies to them.

INVESTMENT MANAGEMENT PRACTICES (IMPs) FOR INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY

The responsible officer will categorise any 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 organization's financial investments together with any non-financial assets which are held primarily for financial return (such as commercial property).

For each such portfolio, a schedule to this IMP sets out the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.

It is recognised that the risk appetite for these activities may differ from that for treasury management.

~~MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS~~

~~This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.~~

~~This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.~~

~~The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.~~