

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA**Meeting of the Council - 13 October 2010****Item 6 - Submissions from the Cabinet****TREASURY MANAGEMENT POLICY STATEMENT****1. Introduction**

- 1.1 This report sets out the four clauses recommended for adoption by the Chartered Institute of Public Finance and Accounting (CIPFA) in its revised Treasury Management Code of Practice (the Code) together with the revised Treasury Management Policy Statement. This statement defines the policies and objectives of the Council's treasury management activities. Adoption of the Code and Policy Statement makes no material difference to the Council's current policy and practices.
- 1.2 In February 2002 the Council adopted the CIPFA Code of Practice on Treasury Management including the recommended Treasury Management Policy Statement.
- 1.3 The relevant Guidance Notes have been fully revised and reissued in 2009 following the publication of the revised Prudential Code for Capital Finance in Local Authorities and the Audit Commission report 'Risk and Return: English Local Authorities and the Icelandic Banks'.
- 1.4 This is backed up by a series of Treasury Management Practices (TMPs) covering the following subjects:
 - TMP 1 Risk Management
 - TMP 2 Performance Measurement
 - TMP 3 Decision-making and analysis
 - TMP 4 Approved instruments, methods and techniques
 - TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
 - TMP 6 Reporting requirements and management information arrangements
 - TMP 7 Budgeting, accounting and audit arrangements

- TMP 8 Cash and cash flow management
- TMP 9 Money laundering
- TMP 10 Training and qualifications
- TMP 11 Use of external providers
- TMP 12 Corporate Governance

1.5 CIPFA has produced the Code:

- 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.
- To emphasise the overriding importance of effective risk management as a foundation for treasury management in all public service bodies.
- 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.
- 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".
- To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
- 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.
- 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.
- 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.

2 Adoption of CIPFA's Code of Practice

2.1 CIPFA recommends the adoption, as part of the Council's Financial Procedure Rules, of the following four clauses:

- a) This 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 the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

- b) The full Council will receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after the year's close, in the form prescribed in its TMPs.
- c) This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet Member for Finance and Information Technology and for the execution and administration of treasury management decisions to the Executive Director for Finance, Information Systems and Property, who will act in accordance with the Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- d) This Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

2.2 The adoption of the recommended clauses adds a requirement that the Council will receive a mid year review of the Treasury Management Strategy and defines which committees/individuals

are responsible for implementing and monitoring treasury management activity

- 2.3 The Council has already amended the Terms of Reference of the Audit Committee to make it responsible for the scrutiny of the Council's treasury activities. The Monitoring Officer will need to make any consequential amendments to the Financial Procedure Rules by replacing Part 4D paragraph 4.30 (a) – (e) with the wording in paragraph 2.1 (a) – (d) above and re-numbering the remaining parts of paragraph 4.30 accordingly.

3 Treasury Management Policy Statement

- 3.1 The Code recommends a revision to the Treasury Management Policy Statement as outlined in **Appendix 1**. This statement defines the policies and objectives of the Council's treasury management activities.
- 3.2 The main change to the extant Policy Statement is the insertion of the word 'investments' in the definition of treasury management activities, acknowledging the significance of investment activities to the Council.

4 Financial, Legal, Personnel and/or Equality Implications

- 4.1 The Local Government Act 2003 provides local authorities with the power to invest but requires local authorities in carrying out this function 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. Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires local authorities to have regard to the CIPFA guidance on Treasury Management.
- 4.2 In order for the Council to be able to deliver effective services within the Council's policy framework to members of the public it is necessary to have a sound financial base.

5 Recommendations

- 5.1 Council is recommended to:
 - (i) adopt the revised CIPFA Treasury Management in the Public Services Code of Practice by adopting the four

clauses set out in paragraph 2.1 and amending the Financial Procedure Rules accordingly; and

- (ii) approve the Treasury Management Policy Statement as set out in **Appendix 1**.

Nicholas Holgate

Executive Director for Finance, Information Systems and Property

Background papers: CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Fully revised second edition 2009)

Contact officer: Paul Kidd, Corporate Services Tel: 020 7361 2316 E-mail: fis.dept@rbkc.gov.uk

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APPENDIX 1

TREASURY MANAGEMENT POLICY STATEMENT

1. This Council defines its treasury management activities as:
 - The management of the Council's *investments and* cash flows, its banking, money market and capital market transactions
 - the effective control of the risks associated with those activities and
 - the pursuit of optimum performance consistent with those risks.
2. This 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 organisation.
3. This 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.