

AUDIT AND GOVERNANCE COMMITTEE

DATE	1 February 2024
REPORT OF	Sharon Wroot, Executive Director, Place & Resources
SUBJECT	Treasury Management Practices
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of the Council's aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all of the Council's aims.

EXECUTIVE SUMMARY

The Council is required to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services (The Code) as revised in 2021.

In order to comply with the key requirements of the Code, the Council should create and keep under review.

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities, as approved by Council.
- Suitable Treasury Management Practices 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.

Audit & Governance Committee is responsible for ensuring effective scrutiny of the treasury management arrangements.

RECOMMENDATIONS

That the Audit and Governance Committee considers and approves the Treasury Management Practice 1(1) and any other listed amendments to other Practices (Appendix 1).

1. BACKGROUND AND ISSUES

1.1. The Local Government Act 2003 requires local authorities to have regard to such guidance as the Secretary of State may by regulations specify. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specify the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (The Code) as such guidance.

1.2. CIPFA as adopted the following as its definition of treasury management activities:

The management of the organisation's investments, borrowing 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.

1.3. The Code identifies three key principles:

The Council 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.

The policies and practices make clear that the effective management and control of risk are the prime objectives of treasury management activities and that responsibility for these lies clearly within the Council. The Council's appetite for risk should form part of the annual strategy and should ensure that priority is given to security and liquidity when investing funds.

The pursuit of value for money in treasury management, and the use of suitable performance measures, are important tools in support of business and service objectives; and, within the context of effective risk management, the treasury management policies and practices reflect this.

1.4. Specific details of the systems and routines to be employed in order to comply with the key requirements of the Code and the records to be maintained take the form of Schedules to the TMPs. The TMPs and associated schedules have been reviewed and updated in accordance with current guidance.

1.5. Link Asset Services Ltd were re-appointed as our Treasury Advisors during 2021 and our existing TMPs have been cross-referenced to their guidance with changes only being made where there was material difference with those based on previous advice.

1.6. The CIPFA Treasury Management Code was revised in December 2021 and adopted by the Council for 2023-24 Financial Year. Key Changes included: -

- TMP 1 to reference Environmental, Sustainability and Governance (ESG) considerations in credit and counterparty policies.
- TMP 10 to include the addition of a Knowledge and Skills Schedule informed

by a Member self-assessment exercise. We have requested Audit & Governance Committee members to complete this assessment during 2023-24.

- The addition of the Liability Benchmark, which we have used informally for several years, as a formal Prudential Indicator
- A revised definition of 'Investments' to include non-treasury 'service-driven' and commercial activities. These items are covered in a separate Capital Strategy along with applicable Investment Management Principles (IMPs) which are complementary to the TMPs covered here which cover Treasury activity only.

- 1.7 Only TMP 1(1), covering investment counterparty policy requires approval each year. This is because TMP1 includes how our counterparty framework will be managed and therefore needs Members affirmative action to proceed. Other TMPs focus more on day-to-day operation and general principles and practice which may remain unchanged between years. Any changes to other TMPs for 2024 are flagged in the Appendix below. A full set of (marked up) TMPs were approved for 2023-24.

2. RISKS AND OPPORTUNITIES

- 2.1 No treasury activity is risk free. The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of treasury management activities will be measured. A desktop risk and opportunities assessment has been undertaken in relation to the content of this report. The assessment in relation to three main areas is as follows:-

Equalities - There are no factors within this report that affect equality and access to services.

Strategic environmental issues - Issues in the report support positive effects on the environmental wellbeing of the Borough.

General Data Protection Regulation 2018 – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

3. OTHER OPTIONS CONSIDERED

- 3.1 These are workable Practices formulated in consultation with our Advisors, Link Asset Services after reference to the relevant legislation, whilst still recognizing local circumstances (team structures etc.).

4 REPUTATION AND COMMUNICATIONS CONSIDERATIONS

- 4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses having not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

- 5.1 As set out in the Appendix.

6. CONSULTATION WITH SCRUTINY

- 6.1 Audit & Governance Committee fulfill the role of scrutiny body for Treasury Management activity.

7 FINANCIAL IMPLICATIONS

- 7.1 As set out in the appendix.

8 LEGAL IMPLICATIONS

- 8.1 There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

9. HUMAN RESOURCES IMPLICATIONS

- 9.1 There are no human resource implications arising from this report

10. WARD IMPLICATIONS

- 10.1 All wards affected.

11. BACKGROUND PAPERS

- 11.1 CIPFA Treasury Management Code and Guidance Notes

12. CONTACT OFFICER(S)

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Sharon Wroot

Executive Director, Place & Resources

Appendix 1

TMP1 Schedule 1 - Risk Management (Unchanged for 2024-25)

1. Credit and Counterparty Policies

- 1.1.1 All treasury management activities present risk exposure for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.
- 1.1.2 The Section 151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties in consultation with the Council's advisors.
- 1.1.3 The criteria will be agreed by Audit & Governance Committee.
- 1.1.4 Investment with government offers the least risk but lower yields
- 1.1.5 The Council selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:
- Credit Ratings - the Council will use credit rating criteria as the main means of assessing the creditworthiness of counterparties for placing investments with – where available this Rating information will be supplemented by additional risk indicators such as Credit Default Swap Rates.
 - Sovereign credit ratings/sovereign support mechanisms (which now includes resolution mechanisms for failing financial institutions)
 - The Council's Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank's unsecured liabilities should this be required by the regulatory authorities.
 - The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.
 - Financial limits for individual counterparties and sectors will be set to ensure a sound diversification policy.
 - Longer term and cash limits may be set for secured investments (e.g., those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)
 - Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.
 - Credit Default Swap (CDS) information

- Macro-economic indicators
 - Asset values - consideration of the use of building societies that do not meet credit rating criteria for banks may be based on asset size rather than a formal rating.
 - Corporate developments, news and articles, market sentiment
 - Where one or more counterparties are part of a group a limit will be set for the aggregate for all investments with the group.
- 1.1.6 Treasury Advisors will construct a lending list comprising time, type, sector and specific counterparty limits based on the Councils approved Annual Investment Strategy. The counterparty list will be agreed and confirmed by the Section 151 officer.
- 1.1.7 It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment.
- 1.1.8 The counterparty list will be checked in accordance with the Annual Investment Strategy. Credit ratings for individual counterparties can change at any time. The Treasury Advisors notify the Council of credit rate changes which affect the Councils counterparty list and any consequent change in limits. They also provide economic summaries, CDS information (monthly) and share price information.
- 1.1.9 In addition, Treasury Management Officers will use their own means to monitor market sentiment (via Treasury Live software) and ratings changes.
- 1.1.10 The Section 151 Officer will amend the approved list in line with the policy on criteria for selection of counterparties.
- 1.1.11 Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then only with the explicit approval of the S151 officer will a lower level of investment be permitted within the Non-Specified category. This is particularly apposite for the Council's own bankers where overnight deposits may be required for Operational purposes.
- 1.1.12 Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative') so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the rating review has been completed and its outcome known. This will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.
- 1.1.13 Credit ratings will be used as supplied from one or more of the following credit rating agencies:-

- Fitch Ratings Ltd
- Moody's Investors Services
- Standard & Poor's

1.1.14 Operationally the Section 151 Officer may take measures to restrict (but not extend) the criteria approved in the Annual Investment Strategy.

1.1.15 Advisers will be advised of changes to the Counterparty List where necessary.

1.1.16 **ESG Policy** –Treasury focuses on managing all categories of risk that may impact first and foremost the security of any given investment product. From that perspective Environmental, Social and Governance (ESG) considerations are about understanding what ESG risks a Counterparty is exposed to and what they may mean for the Authority's risk in choosing to make a particular investment.

1.1.17 In line with the Authority's declaration of a Climate Emergency, we will therefore aim to assess and monitor Environmental, Social and Governance factors when selecting investment options. Specific factors impacting this assessment are set out in Appendix 2 (P20) attached to the Treasury Management Strategy Statement Report.

Changes to other TMPs

There are no changes to Treasury Management Practices for 2024-25.