

CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes December 2017 – Revisions

Changes to the Treasury Management Code:

Section	Change type	Details of change
1 - Introduction	New Paragraph	<p>Definition of treasury management: <i>“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 investment property portfolios.</i></p> <p><i>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.”</i></p>
3 – Status	Reference Change	Reference to the Non-Investment Products Code replaced with the Bank of England’s 2017 Money Markets Code .
4 – Key Principles	Amendment	The second principle has been amended: <i>“Organisations should ensure that priority is given to security and portfolio liquidity when investing treasury management funds”</i> and the reference to the House of Commons 1991 report on the closure BCCI has been deleted.
5 – Clauses to be formally adopted	Text added	Text has been added to the note to clause 2 : <i>“Where a capital strategy is produced by a local authority”, the committee with delegated responsibility for the implementation and regular monitoring of TM policies and practices “may also set the detailed treasury management policies, while being clear that overall responsibility remains with full council.”</i>
6 – Treasury Management Policy Statement	No change	The policy statement is unchanged, including the definition of treasury management.
7 – Treasury Management Practices TMP 1 – Risk Management	New Paragraph	<p>Added to the General Statement, partly by moving text from the section on counterparty risk: <i>“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.”</i></p> <p>Inflation risk has been reintroduced as a TM risk requiring management: <i>“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”</i>.</p> <p>The paragraph previously entitled “market risk</p>

Section	Change type	Details of change
		management” is now entitled “price risk management”, to better reflect the nature of the risk under discussion and separate it from other market risks.
<p>7 – Treasury Management Practices</p> <p>TMP 4 – Approved Instruments, Methods and Techniques</p>	New Paragraph	<p><i>“This organisation has reviewed its classification with financial institutions under MIFID II (Markets in Financial Instruments Directive) 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.”</i></p>
<p>8 – Investments that are not part of Treasury Management Activity</p>	New Section	<p>New section of the Code has been added to cover investments made for reasons other than treasury management:</p> <p>“Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.</p> <p>“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.</p> <p>“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.</p> <p>“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.”</p>

Changes to the Cross-sectoral Guidance Notes:

Section 1 – Background and Explanatory Notes

Section	Change type	Details of change
1.1 Risk Management	New Definition	A definition of inflation risk has been included: “Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won’t be worth as much in the future because of changes in purchasing power due to inflation.”
1.1 Risk Management (Managing Treasury Management Risks)	Reference Change	Credit Rating Companies: Fitch, Moody’s and Standard & Poor’s are no longer referred to by name, but organisations are still “advised to have regard to the ratings issued by the main agencies and to make their decisions based on all ratings.”
	Text added	The section on refinancing risk includes a sentence on guarantees given: “Where an organisation provides financial guarantees to third parties, these should be included in these records and regularly reassessed as to the probability they will be called upon.”
1.2 Performance Management in Public Service	Text added	The section on performance measurement includes the following new sentence: “CIPFA supports the use of risk benchmarks in measuring treasury management performance.”
1.3 Decision Making And Analysis in the Public Services	Text added	Guidance on decision making now includes advice that “relevant due diligence” takes place on all transactions and that “in respect of investment decisions, the organisation should consider the risks to capital and returns and the implications for the organisation’s future plans and budgets.”
1.4 Approved Instruments, Methods and Techniques	New paragraph	Paragraph on MiFID: “The consideration of skills and experience is particularly critical where organisations request to be treated as professional clients under MIFID II. Designation under MIFID II should be endorsed by the treasury management strategy and regularly reviewed to ensure that designation remains appropriate.”
1.5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements	New guidance	Now includes guidance on when approval of the TM strategy can be delegated to a committee . This is when full council approves a capital strategy that includes: <ul style="list-style-type: none"> • “an overview of the governance process for treasury management including any delegations from full board/council to cabinet/committees etc (note responsibility remains with full board/council). • a projection of external debt and internal borrowing levels over the long term. • limits on overall borrowing for the following year. • the organisation’s risk appetite in terms of treasury management and the key risks it faces in terms of servicing its current and future debt requirement, and

Section	Change type	Details of change
		<p>how these are managed, along with commentary on the sensitivity of projections.</p> <ul style="list-style-type: none"> • a summary of the knowledge and skills available to the organisation and confirmation that these are commensurate with the organisation's risk appetite."
1.8 Cash and Cash Flow Management	New guidance	Advises that "where capital expenditure and investment is financed initially through internal cash reserves, allowing the requirement for borrowing to be deferred to future years, the impact on future liquidity should be considered."

Section 2 - Suggested schedules to accompany an organisation's statement of its treasury management practices

Sub Section	Change type	Details of change
Approved Instruments, Methods and Techniques	New guidance	Schedule to TMP 4 , it is now suggested that as well as a list of approved instruments, a list of " approved investments " should be maintained.

Section 3 - Guidance on investments that are not part of treasury management activity

Sub Section	Change type	Details of change
	New Section	<p>Guidance has been added on non-treasury investments, expanding on the corresponding new section of the Code itself. This recognises that such investment decisions may not prioritise security and liquidity over yield, but recommends that "such a decision should be explicit, the additional risks set out clearly and the impact on financial sustainability identified and reported."</p> <p>Other recommendations include:</p> <ul style="list-style-type: none"> • That due diligence processes and procedures reflect the additional risk an organisation is taking on. • Where necessary independent and expert advice should be sought to ensure due diligence is suitably robust. • A published schedule should be agreed by full board/council that sets out the organisation's investment management practices for non-treasury investments. • Where a capital strategy is produced by a local authority including the authority's approach to commercial activities, the detail may be published separately and delegated to a relevant committee. • A register of investments and financial guarantees should be maintained and regularly reviewed as part of performance reporting arrangements, including

Sub Section	Change type	Details of change
		<p>periodic reassessment of the probability of financial guarantees being called upon.</p> <ul style="list-style-type: none"> • This register should be reconciled to the financial instruments disclosures within the statement of accounts. • That schedules are maintained for non-treasury investments on the following areas: <ul style="list-style-type: none"> ○ risk management ○ performance measurement and management ○ decision making, governance and organisation ○ reporting and management information ○ training and qualifications.