REPORT SUMMARY SHEET

TITLE: South East Wales Corporate Joint Committee 2024/25 Treasury Management Strategy

Purpose

To seek approval of the South East Wales Corporate Joint Committee's (CJC) Treasury Management Strategy Statement (TMSS), along with a range of supplementary statements which also require approval, necessary for effective control of the CJC's borrowings and investments for 2024/25 and compliance with applicable regulations and relevant accounting codes.

Furthermore, to set out details of the cash 'Pooling Arrangements' agreed with Rhondda Cynon Taf's (RCT), treasury management team, which will be utilised during the CJC's bedding in period, whilst the CJC develops its own in-house capacity and capability.

Summary

The report sets out the CJC's proposed Treasury Management Strategy (incorporating its Capital Strategy) for financial year 2024/25

Recommendation

The recommendations are set out that the Board:

(1) *approves that the CJC formally adopts CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance 2021, as attached at Appendix 1;*

(2) *approves the CJC's 2024/25 Treasury Management Strategy Statement (which incorporates its Capital Strategy) , as attached at Appendix 2;*

(3) *approves the CJC's Treasury Management Policy Statement, as attached at Appendix 3;*

(4) *approves the CJC's Treasury Management Principles & Schedules Statement, as attached at Appendix 4;*

(5) *approves the CJC's Minimum Revenue Provision Policy Statement, as attached at Appendix 5;*

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Cyd-bwyllgor corfforaethol De-Dwyrain Cymru

18 MARCH 2024

SOUTH EAST WALES CORPORATE JOINT COMMITTEE 2024/25 TREASURY MANAGEMENT STRATEGY

TO RECEIVE THE REPORT OF THE INTERIM SECTION 151 OFFICER

AGENDA ITEM 5

Reason for this Report

1. To seek approval of the South East Wales Corporate Joint Committee's (CJC) Treasury Management Strategy Statement (TMSS), along with a range of supplementary statements which also require approval, necessary for effective control of the CJC's borrowings and investments for 2024/25 and compliance with applicable regulations and relevant accounting codes.

2. To set out details of the cash 'Pooling Arrangements' agreed with Rhondda Cynon Taf's (RCT), treasury management team, which will be utilised during the CJC's bedding in period, whilst the CJC develops its own in-house capacity and capability.

Background

3. The South East Wales CJC Establishment Regulations came into force on 1 April 2021 and established a corporate legal entity comprising of the 10 South East Wales Local Authorities, which are also members of the Cardiff Capital Region (constituent councils) and, for the purposes of the Strategic Development Plan (SDP), the Bannau Brycheiniog National Park Authority (BBNPA).

4. It has been a long-held ambition of Regional Cabinet to develop one integrated model of regional public investment, as per the OECD recommendations to Welsh Government in their review of Regional Economic Governance in Wales (2021). This would affect the evolution of Cardiff Capital Region City Deal (CCRCD) from a single funding programme supported through an 'Accountable Body' model to a new corporate entity through which multiple programmes, investments and functions can be developed and delivered on a regional basis.

5. The CJC Statutory Guidance sets out the Accounting & Reporting arrangements applicable to the set-up and operation of CJCs. Furthermore, the Guidance clearly sets-out the relevant legislative frameworks which apply to all CJCs and these are clearly referenced in this report. In summary, CJCs are seen "as a member of the Local Government family", and in respect of all financial and accounting matters, are subject to the same regulatory framework provisions.

6. At its meeting of the 29 January 2024, the CJC approved its Annual Budgets for 2024/25. That report outlined that from the 1 April 2024, the CJC will become responsible for undertaking its own treasury management activities e.g. determining and making arrangements for its daily cash requirements, investing surplus balances in accordance with future needs etc. This is an important function, which is currently undertaken by Cardiff Council, acting as the Accountable Body to the Cardiff Capital Region City Deal.

7. This will require the CJC to put in place appropriate processes to allow it to determine its 'day to day' cash requirements over the short, medium and longer term and ensure that the necessary practical and regulatory arrangements are in place to service these needs. For these reasons the CJC is required to develop and seek approval of its own Treasury Management Strategy Statement (TMSS), along with a number of supplementary documents.

8. It should be noted that the information contained within this document is exclusively related to the CJC's treasury investments, except for certain sections of the Welsh Investment Guidance included in the Appendix 2. Information in relation to the CJC's non-treasury investments, is fully set out in its investment framework documentation.

Issues

2024/25 Treasury Management Strategy (incorporating the Capital Strategy)

9. The Local Government Act 2003 refers to affordability and the requirement that local authorities in England and Wales determine and keep under review the amount of money they can afford to borrow for capital investment (Prudential Code for capital finance in local authorities (2021 edition)).

10. The Prudential Code plays a key role in capital finance within the CJC. The organisation is free to determine its own programme for capital investment that is central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local decision making. The CJC is required by regulation to have regard to the Prudential Code when carrying out its duties in England and Wales under Part 1 of the Local Government Act 2003.

11. The CJC's approved 2024/25 Budget includes the capital component of the City Deal Wider Investment Fund. The capital element of the fund totals £445 million (over a 10 year period) and is a fully funded programme i.e. capital expenditure is fully funded from a combination of the £325 million approved HM Treasury capital grant and £120 million capital contributions approved by the 10 constituent councils.

12. Therefore, the CJC is unlikely to have any immediate borrowing requirements, but a borrowing section has been included within the TMSS for completeness and to enable it to consider future plans as these arise. For example, the CJC has carried out some early work in relation to developing a 'Fund 2' and the delivery of such a fund could require the CJC to undertake borrowings under its own name in the future.

13. Linked to the Prudential Code are the requirements of the Treasury Management in the Public Services: Code of Practice (CIPFA 2021) (TM Code) (attached at Appendix 1), which sets out good practice in treasury management which includes the management of investment and borrowing decisions. The recommendations set out in this report, seek the CJC's approval to formally adopt the TM Code and to make investment and borrowing decisions in line with its contents.

14. The CJC's draft Treasury Management Strategy Statement (TMSS), which incorporates its Capital Strategy, is attached at Appendix 2 and this covers the following areas:

- Borrowing to finance the cash requirements arising from the approved Capital Programme (where applicable);
- Treasury investments and determining how short term cash flows will be safely managed to meet the CJC's financial commitments and objectives.

15. The strategy includes the following key information:

- The CJC's current treasury position;
- Economic background and prospects for interest rates;
- Investment strategy including:
  i. Approved investments;
  ii. Approved investment counterparty credit criteria;
  iii. Investment strategy.

- Borrowing, including:
  i. Policy;
  ii. future borrowing requirement based on the capital expenditure plans and choice between internal and external borrowing and;
  iii. borrowing strategy.

- Treasury management indicators and limits for 2023/24 to 2027/28 based on the CJC's latest approved Capital Programme.

16. As set-out in the TMSS the CJC will receive reports on the approach to treasury management at the start of the financial year, at mid-year and at out-turn. The Governance & Audit Sub-Committee's Terms of Reference set out their responsibility to seek assurance that the CJC has complied with its Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance, consistent with those risks.

17. The Governance & Audit Sub-Committee is in the process of being set-up, and therefore, it has not been possible for the draft TMSS to be reviewed in advance. However, this will be considered retrospectively as part of Governance & Audit Sub-Committee's work programme during 2024/25 and future strategies will be reviewed in advance of approval being sought from the CJC.

18. Incorporating the Capital Strategy within the Treasury Management Strategy Statement (TMSS) aligns with the Prudential Code's requirements, aiming to contextualise borrowing and investing decisions within the CJC's broader financial perspective. This integrated approach ensures governance bodies are well-informed without necessitating a separate report at this stage.

19. Given the CJC's current debt-free status and its capital expenditure plans, which do not foresee borrowing needs in the near future, along with anticipated increases in investments from capital receipts and revenue reserves through loan repayments and equity sales, a consolidated document is both strategic and sufficient for the CJC's current needs. This method streamlines financial governance, adapting to the CJC's unique circumstances and financial outlook.

20. Alongside the TMSS, the CJC must also develop and obtain approval for several supplementary statements that work in conjunction with the TMSS. Further details are provided below:

- **Treasury Management Policy Statement** – this sets out the CJC's policies, objectives and approach to risk management of its treasury management activities and is set out at Appendix 3;

- **Treasury Management Principles and Schedules Statement** – sets out the manner in which the CJC will seek to achieve its policies and objectives, and prescribing how it will manage and control those activities. This is a comprehensive document, which the CJC needs to put in place from the outset and then revisit/update over the medium term, for example, every 5 years or so. The CJC's Treasury Management Principles and Schedules Statement is attached at Appendix 4;

- **Minimum Revenue Provision Policy Statement** - the Welsh Government Guidance requires the CJC to approve an Annual Minimum Revenue Provision (MRP) Statement each year and recommends a number of options for calculating a prudent amount of MRP. As outlined above, the CJC's capital programme is fully funded and therefore has no debt at this time. However, in order to comply with the Regulations, the CJC's MRP Policy Statement is attached at Appendix 5.

<u>Treasury Management Advisors</u>

21. The CJC has appointed Arlingclose as its Treasury Management Advisors, who have supported the CJC in the development of the Statements outlined above. Arlingclose have been initially appointed for a period of 12 months, with the option to extend for a further 12 months. The specification agreed for Arlingclose's appointment includes the following services:

Investments and Borrowing

- Identification and analysis of borrowing (not currently required), investment and restructuring opportunities and instruments taking account of financial implications;

- Assist in the monitoring of the CJC portfolio performance, including benchmarking data.

Investment Counterparties

- Provision of advice on investment counterparty creditworthiness, including provision of prudent parameters established using information from one or more of the UK's leading credit rating agencies and other market data;
- Reports to be provided monthly, with revisions to ratings provided as they are announced.

Technical Advice

- Provide updates on technical accounting changes relating to Treasury Management or capital financing and provide support and assistance with queries that may arise as a result of the updates.
- Provision of updates and analysis of developments in Treasury Management including responding to, and providing advice on, questions that may arise.

Economic Conditions and Interest Rates

- Provision of regular bulletins covering information on financial markets, economic data releases and market rates, including interest rate views and forecasts;
- Provision of information on decisions taken by the Monetary Policy Committee.

Strategies and Reports

- Assisting in the formulation of the Treasury Management Strategy and Policy for borrowing and lending activities ensuring compliance with the CIPFA Code of Practice on Treasury Management and relevant regulations;
- Provision of template documents and advice on Annual Treasury Management Strategy Report and related strategies including:

    - Capital and Investment strategies
    - Treasury management practices
    - Prudential indicators
    - MRP policy
    - Mid-year and end of year Treasury Management reports
    - Statement of Accounts disclosure notes.

Treasury Strategy Meetings / Training Events and Seminars

- Attend quarterly Treasury Strategy meetings with the CJC to review investments, discuss borrowing and address other relevant treasury management issues.
- Provide Officers and Members with access to training events and seminars (two places at each event) to maintain and develop knowledge, skills and understanding of Treasury Management. Provide an annual treasury management briefing for all Members.

Cashflow Forecasting and Day to Day Cash Management

22. As outlined above, the CJC will need to supplement its existing financial planning arrangements to capture the cashflow implications of its day-to-day activities. With this in mind, the CJC has developed its own cashflow forecasting tool, which captures details of the CJC's cash inflows and outflows on a daily, weekly, monthly and annual on a rolling 3 year basis. Furthermore, the CJC has put in place a monthly bank reconciliation process to ensure that the cashflow forecast always ties back to the cash balance outlined in the CJC's bank statement plus cash investments held at any time.

23. To support the CJC with its treasury management activities, the 2024/25 Accountancy Service Level Agreement (SLA) with RCT has been updated to include support with these arrangements. The CJC has agreed that its surplus cash balances will be 'pooled' with RCT's cash balances and invested in accordance with RCT's approved Treasury Management Strategy, which compliments the CJC's own strategy. Details of the arrangements (along with roles and responsibilities) are set out in an SLA and covers arrangements in respect of the transfer of balances, record keeping and the calculation of 'pooled' interest.

25. Following the unprecedented national and international economic crisis in 2008, RCT determined that it would only invest in the Debt Management Account Deposit Facility and other Government backed public sector bodies. This investment strategy has been approved by RCT's elected Members since that point. The CJC considers this to be a very low risk treasury management strategy. This strategy ensures RCT prioritises Security (protecting monies invested), then Liquidity (cashflow) and finally Yield (return on investment). The order of these "SLY" priorities are detailed in Investment Guidance produced by the Welsh Government.

26. As the CJC will pool its cash resources with RCT for the foreseeable future, the CJC will follow RCT's approach of only investing in the Debt Management Account Deposit Facility and other Government backed public sector bodies. This low-risk strategy was determined, balancing risk and return. It is acknowledged that low risk investment strategies result in lower investment returns. Accordingly, the CJC will keep this arrangement under constant review with a view to considering whether it undertakes market investment activity in accordance with its detailed Treasury Management Strategy appended to this report, at the appropriate time. Members will be kept informed of any changes as part of the CJC's quarterly treasury management performance reports.

Reasons for Recommendations

27. To report to the CJC its first Treasury Management Strategy for approval in line with the requirements of the CIPFA Code of Practice on Treasury Management.

Financial Implications

28. The report seeks approval of the CJC's Treasury Management Strategy Statement and a range of supplementary statements in respect of financial year 2024/25. As

outlined in the report, the CJC will become responsible for managing its cash from the 1 April 2024 and the suite of draft documents attached to this report will be central to the CJC's ability to manage these activities in an effective way, ensuring always that the principles of Security, Liquidity and Yield are followed.

29. With that in mind the CJC has developed its own cashflow forecasting tools to allow it to assess the value of surplus cash funds available on a day to day basis, throughout the year. In addition, whilst the CJC is 'bedding down' following the implementation of the 'Lift & Shift' model from the 1 April, it has agreed to a cash pooling arrangement with RCT. This provides the CJC with the benefit of its cash being managed by an experienced team of treasury management officers, whilst ensuring that returns (yield) is proportionate to the risk profile embedded within the CJC's overall treasury management strategy.

30. Whilst the CJC has benefited from generating significant returns on its balances in previous years, there is no requirement to generate a targeted sum to meet a pre-set 'income target' for budgeting purposes. Therefore, the returns generated in 2024/25 will represent surplus resources available to the CJC to meet any unforeseen costs. Where then resources are not utilised during the year, then these will be carried forward as usable reserves, and be available for drawdown in future years.

31. The CJC has appointed a professional firm of experienced public sector treasury management advisors to support it with its cash management activities and documentation. The service specification includes appropriate call-off arrangements to ensure the CJC has access to timely, professional advice and support throughout the year.

32. Quarterly reports will be prepared for the CJC and the Governance & Audit Sub-Committee on the CJC's actual treasury management financial performance, results and any financial implications arising.

Legal Implications

33. The report ensures that the Corporate Joint Committee complies with its legal duty under the Local Government Act 2003 and in doing so is in line with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

Well-Being of Future Generations (Wales) Act 2015

34. The Well-being of Future Generations (Wales) Act 2015 places a duty on public bodies to carry out 'sustainable development', meaning the process of improving the social, economic, environmental and cultural well-being of Wales by taking action aimed at achieving the 'well-being goals' of:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities

- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales

and by acting in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

35. In order to act in accordance with the sustainable development principle, when exercising its functions South East Wales CJC must take account of the following things:

    - The importance of balancing short term needs with the need to safeguard the ability to meet long term needs;
    - The need to take an integrated approach to achieving the well-being goals;
    - The importance of involving others with an interest in achieving the well-being goals and of ensuring those persons reflect the diversity of the population of the region;
    - How acting in collaboration with others could assist to meet the region's well-being objectives;
    - How deploying resources to prevent problems occurring or getting worse may contribute to meeting the region's well-being objectives.

36. To assist the Committee to consider its duties under the Act in respect of the decision sought, an assessment has been undertaken, which is attached at Appendix 6.

Equality Act 2010

37. The Committee must, in the exercise of its functions, have due regard to the 'public sector equality duty' and the need to: (1) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited under the Equality Act; (2) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not; and (3) foster good relations between persons who share a relevant protected characteristic and persons who do not.

    The characteristics protected under the Act are:

    - age;
    - disability;
    - gender reassignment;
    - marriage and civil partnership;
    - pregnancy and maternity;
    - race;
    - religion or belief;
    - sex;
    - sexual orientation.

38. There are no specific equalities implications arising from this report.

Recommendations

39. It is recommended that the South East Wales Corporate Joint Committee:

(1) approves that the CJC formally adopts CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance 2021, attached at Appendix 1;

(2) approves the CJC's Treasury Management Strategy Statement, which incorporates its Capital Strategy, attached at Appendix 2;

(3) approves the CJC's Treasury Management Policy Statement, attached at Appendix 3;

(4) approves the CJC's Treasury Management Principles & Schedules document attached at Appendix 4;

(5) approves the CJC's Minimum Revenue Provision Policy Statement, as attached at Appendix 5;

Christopher Bradshaw
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18 March 2024

Appendices

Appendix 1 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance 2021

Appendix 2 2024/25 CJC Treasury Management Strategy Statement, incorporating its Capital Strategy

Appendix 3 CJC Treasury Management Policy Statement

Appendix 4 CJC Treasury Management Principles & Schedules Statement

Appendix 5 CJC Minimum Revenue Provision Policy Statement

Appendix 6 Well-being of Future Generations Assessment

CIPFA

Treasury management in the public services

Code of practice and cross-sectoral guidance notes

2021 edition

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SECTION 1

Introduction

This *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (the TM Code) represents a revision of the 2017 Treasury Management Code. It introduces strengthened requirements for skills and training, and for investments that are not specifically for treasury management purposes.

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

Specifically, the TM Code and guidance notes have been designed to be primarily for the use of local authorities, police and crime commissioners, 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 NHS.

Within these organisations, CIPFA recognises that there is a wide range of interpretations of what activities comprise treasury management. For the purposes of the TM 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 their nature 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 TM Code overrides or should be taken as overriding statutory provision, nor does the TM 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 that the organisation holds primarily for financial returns, such as commercial property portfolios. This may therefore include investments that 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 the TM Code.

The essentially more commercial nature of some public service organisations has the potential to create pressures and perhaps conflicts within their treasury management activities. These differences are explained more fully in the sector-specific guidance notes. However, the key principle of controlling 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 TM 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 TM Code.
- Second, they give suggestions for schedules to accompany the TM 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 TM Code.

CIPFA gratefully acknowledges the contributions made by the many organisations and individuals who assisted during the preparation of this TM 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 the wide-ranging support of various bodies, the **application and maintenance of these recommendations is the responsibility of the organisations themselves.**

Editorial note: references to the Ministry of Housing, Communities and Local Government (MHCLG) have been retained for guidance published before the re-named Department for Levelling Up, Housing and Communities was created in 2021.

SECTION 2

Purposes

CIPFA has produced the TM 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, thereby adding 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 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

This TM Code has the support of a wide range of organisations.

In the case of local authorities in England and Wales, the TM 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**, paragraph 24 requires local authorities to have regard to this guidance. In Scotland, **finance circular 5/2010** requires local authorities to "have regard" to the TM Code.

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

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

This TM 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 TM 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 TM Code, so long as, when taken as a whole, those alterations do not result in an organisation materially deviating from the TM Code's key principles as described in Section 4.

The accompanying guidance notes include explanations of the TM 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".

In April 2021, the Bank of England updated its UK Money Markets Code that was originally published in 2017.

The TM 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. The TM 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 the area of effective treasury risk management should 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 and investment 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 that are not for treasury management purposes.

The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM 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 TM Code's key principles.

2 This organisation (ie full board/council) will receive reports on its treasury and investment 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 they are 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 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

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 the TM 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 that seek to ensure compliance with these objectives are set out in the schedule to this document.

[1] 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 it 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.

The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

[2] Liquidity risk management

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements and overdraft or standby facilities to enable it at all times to have the level of funds available to it that are necessary for the achievement of its business/service objectives.

This organisation will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, 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 net interest costs or revenues in accordance with 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 other long-term liabilities 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, that are competitive and as favourable to the organisation as can reasonably be achieved in 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 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] *Counterparty credit 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 manage the risk of these impacting adversely on the organisation.

[8] Operational risk, including fraud, error and corruption

This organisation will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. 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 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; the effects of decisions taken and transactions executed in pursuit of those policies; the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and 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, the effects of the decisions taken and the transactions executed in the past year, and 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 and any other investment indicators required by regulation 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 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, 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.

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 that 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. 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 TM 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.

SECTION 8

Investments that are not part of treasury management activity

The definition of treasury management in Section 6 includes all the investments of the organisation. This may include investments that are outside the purposes of normal treasury management and that may be managed elsewhere in the organisation. However, treasury managers should normally have an understanding of such investments and should support their management within the organisation. 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 that need to be invested until the cash is required for use in the course of business.

- Treasury investments 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, eg in order to reduce financing and interest rate risks.
- Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- 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 there is a link to cash flow management or treasury risk management activity, it is likely that such investments would be for commercial purposes, ie primarily for financial return.

Investments for commercial purposes (or commercial investments) are 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 such as commercial property, where they are held primarily for financial return.
- For local authorities, investments of this type will usually constitute capital expenditure.
- 'Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily 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.

TM Code requirements

For the purposes of reporting under the TM Code, any investments that 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 the organisation's financial investments, including those that are not treasury management investments, as well as any non-financial assets held primarily for financial return (such as commercial property). Organisations may prefer to create a separate investment strategy for their service and commercial investments in order to maintain their separateness from treasury management investments.

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 make investments for service or commercial purposes including property or other financial assets 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. 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 organisation's financial investments, together with any non-financial assets that 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.

Cross-sectoral guidance notes

Introduction

These guidance notes accompany CIPFA's *Treasury Management in the Public Services: Code of Practice* (the TM Code) and should be read in conjunction with it. They are divided into three sections and serve the following purposes:

1. Section 1 provides background and explanatory notes on the main issues raised and the key principles stated in the TM Code.
2. Section 2 proposes the contents of schedules to accompany the statement of an organisation's treasury management practices (TMPs), which the TM Code recommends every public service organisation should have.
3. Section 3 provides further recommendations and guidance on investment in other financial assets and property primarily for financial return that is not part of treasury management activity.

Responsibility for the guidance in this document and the views expressed in it rests solely with CIPFA. It should not be relied upon by any third party in dealings with public service organisations, nor should it be relied upon as an authoritative interpretation of the law.

CIPFA wishes to thank the members of its Treasury and Capital Management Panel, who have overseen the updating of these guidance notes.

SECTION 1

Background and explanatory notes

The TM Code recommends that:

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.

Source: The TM Code – Key principles.

The TM Code further recommends the adoption of four key clauses and the preparation of a treasury management policy statement, treasury management practices and investment management practices in order to achieve the above. It also recommends annual approval of a treasury management strategy and reporting at mid-year and year-end.

This section of the guidance notes explains the reasons for CIPFA's recommendations and expands on the specific proposals concerning an organisation's approved treasury management practices.

1.1 RISK MANAGEMENT

The TM Code acknowledges the substantial variations that exist 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 organisations operate, the powers they possess in respect of treasury management and the services and businesses they pursue.

The TM Code states, however, that in CIPFA's view, the common and overriding aim of such organisations should be the effective identification, monitoring and control of risk. The TM Code strongly recommends that organisations' treasury management policies and practices reflect this belief, and this message is further reinforced in this section of the guidance notes.

Some public service organisations may use derivatives for the management of risk; where this is the case, public service organisations should satisfy themselves that they understand fully how underlying risks are affected and any additional risks that may arise.

The TM Code identifies nine main treasury management risks for public service organisations. These guidance notes define these risks as follows:

Credit and counterparty risk

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, derivative instrument, or capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

Liquidity risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the organisation's business/service objectives.

Interest rate risk

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.

Exchange rate risk

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances against which the organisation has failed to adequately protect itself.

Inflation risk

Inflation risk, also called purchasing power risk, is the chance that the cash flows from treasury instruments (such as investments) won't be worth as much in the future because of changes in purchasing power due to inflation.

Refinancing risk

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Legal and regulatory risk

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the organisation suffers losses accordingly.

Operational risk, including fraud, error and corruption

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

Price risk

The risk that through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to adequately protect itself.

Defining the organisation's risk appetite

Key principle 2 of the Code states that an organisation's risk appetite should form part of its annual treasury management strategy.

Treasury managers are encouraged to review professional discussions about defining an organisation's risk appetite in relation to specific treasury risks. However, at the start of their annual strategy, organisations should provide an overall assessment of their risk appetite, which governs the policies and strategies the organisation uses to manage risk.

An organisation's risk appetite requires consideration and justification in the context of its overall financial risks and level of resilience. A range of risk scenarios and their impact on the revenue budget should be considered in relation to the organisation's capacity to absorb adverse impacts – for example, the effect of a 1% movement in interest rates. The responsible officer should reach a view about the acceptable level of treasury budget variance the organisation can reasonably manage and propose or set risk limits accordingly.

Managing treasury management risks

CIPFA believes that the substantial majority of public service organisations embody within their business or service planning processes the means by which they can identify treasury management risks. It also believes that many are familiar with and have implemented methods by which those risks can be successfully managed and contained. If an organisation is not doing so, it is unlikely to be treating the subject of risk management with sufficient priority.

The treasury function's primary role in the public services is to manage the net risk exposures that result from the organisation's activities and financing. It is not the purpose of the treasury function to increase risks primarily in order to earn financial returns.

For an organisation to manage and contain its risks successfully, it must first identify what they might be and consider to what extent it is able and prepared to suffer the consequences of those risks impacting adversely on its finances. To the extent that it is unable or unprepared to bear those consequences, it should be seeking to protect itself against that eventuality.

As part of its business or service planning processes, an organisation needs to put in place the following:

- **well-documented records of the standing of counterparties it does or may deal with and continuous access to independent sources of advice and information on the same**

All public service organisations need to be alert to the prospect of the counterparties they deal with being unable or unwilling to fulfil their contractual responsibilities, especially as a result of failure to maintain their credit status. This applies not only to contracts relating to capital financing

and investment, but also to those concerned with the increasing reliance placed by public service organisations on outsourcing.

Organisations should clearly specify the minimum acceptable credit quality of their counterparties. This should be monitored regularly through the published credit ratings (where available) for both the institution and the country of investment. Organisations should be aware of the differences in how they are rated, what is being measured by each agency and any forward-looking rating warnings.

Know your counterparty is a key principle; organisations should not rely on credit ratings alone for their understanding of counterparties. Credit ratings remain a key source of information, but it is important to recognise that they do have limitations. Organisations are advised to have regard to the ratings issued by the main agencies and to make their decisions based on all ratings. Ratings should be kept under regular review and 'ratings watch' notices acted upon.

Credit ratings should only be used as a starting point when considering credit risk. Organisations should make use of generally available market information, such as the quality financial press, market data and information on government support for banks, including the ability and willingness of the relevant government to provide adequate support.

As a general rule, however, organisations need a sound diversification policy with high credit quality counterparties. Such a policy is needed to prevent overreliance on a small number of counterparties and should also consider country, sector and group limits.

- **an effective cash and cash flow forecasting and monitoring system that will identify the extent to which the organisation is exposed to the effects of potential cash flow variations and shortfalls**

For most public service organisations, the prospect of an ongoing liquidity shortage is remote. Such is the nature of their income sources that they are generally more involved with the effective management of surplus liquidity than with concerns over cash flow difficulties. That said, organisations should be mindful of the additional cost implications of unanticipated borrowing for the short term.

It is for each organisation to determine what resources to devote to the forecasting and monitoring of its cash balances and to managing the investment of its surplus liquidity, not only in the light of its own circumstances, but also within the context of the statutory and regulatory regimes applying to its treasury management activities.

The minimum requirement should be that the organisation's liquidity targets are secured, and for this reason alone, every public service organisation should strive for reliability and accuracy in its cash flow forecasting and monitoring. An organisation that decides to devote substantially more resources than necessary to achieve this will need to be in a position to make a reasoned judgement as to whether the cost of those resources is warranted by the beneficial effect it secures on its investment returns.

Section 1.8 of these guidance notes provides further guidance on the management of cash and cash flows.

- **access to financial market commentaries and reviews on the likely future course of interest rates, exchange rates and inflation to enable it to assess future treasury risks and scenarios, and to permit the effective management, control and development of suitable risk management strategies**

Public service organisations are subject to exposure to fluctuations in interest rates and exchange rates. A common requirement, however, is for organisations to define their policies and practices in order to deliver the necessary degree of certainty for their plans and budgets. At the same time,

however, they need to understand how fluctuations in market conditions impact upon yields and allow sufficient flexibility both to take advantage of potentially advantageous changes in market conditions and to mitigate the effects of potentially disadvantageous changes.

An organisation's treasury management strategy should detail how this risk is being addressed. Should interest rates not follow their assumed course, then this should be reported during the year. The annual treasury strategy should not need updating.

The trade-off between certainty and flexibility is very much a matter of individual choice within whatever statutory or regulatory framework exists. Public service organisations need to be aware of the potential costs and benefits of those choices. Access to external sources of data and analysis can be an essential ingredient of making informed decisions. The credibility of the sources used is likely to be greater if it can be demonstrated that they are unbiased and not susceptible to conflicts of interest.

Where an organisation seeks to manage its exposures to interest rate or exchange rate fluctuations via the use of specific financial instruments such as derivatives, it should be clear about its policies in its annual strategy. It should only use such instruments for the prudent management of its financial affairs and should fully understand the instruments and the risks it is managing.

- **reliable records and forecasts of the terms and the maturities of its borrowings, capital, project and partnership funding to allow it to plan the timing of, and successfully negotiate appropriate terms for, its refinancings**

Uncertainty over market conditions at times of renegotiating or replacing borrowings or other market financings is an inevitable consequence of the need for most public service organisations to raise long-term funding. This uncertainty can be reduced, however, if an organisation ensures it has reliable records of its maturities and allows itself time to plan well in advance of its need to negotiate. The effective management, and in particular the avoidance of a bunching in its maturities, can reduce the prospect of having to negotiate at a time that is unfavourable to the organisation.

A medium to long-term forecast of total borrowing outstanding, in accordance with the organisation's current approved plans, is a key baseline for assessing the appropriate volume and maturity of borrowing to take. This can be used as a liability benchmark to manage refinancing risk, and also interest rate risk and credit risk.

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.

- **comprehensive documentation of the organisation's own legal powers and regulatory requirements, and that of its counterparties, to allow it to assess the potential for illegal or irregular dealings in its treasury management activities**

Instances of public service organisations exceeding their legal powers or contravening regulatory controls are rare, since they are almost invariably prescribed very precisely. On the occasions this has occurred, however, the implications have usually been serious, and the problems so created have proved difficult to resolve, especially where they have involved commercial counterparties. It remains essential, therefore, that organisations maintain and make access widely available to up-to-date records of their powers and of the regulatory regime under which they undertake their treasury management activities. They should confirm, if requested to do so by counterparties, the powers and authorities under which they effect transactions with them. Equally importantly, they should question and establish the powers of those with whom they enter into transactions.

- **full analysis and records of the systems and processes pursued in making treasury management decisions, and in executing transactions, to enable an organisation to create a successful audit trail, and to allow it to assess the appropriate contingency arrangements**

Sections 1.5 and 1.6 of these guidance notes draw attention to the need for clarity of organisation, reporting arrangements and management information systems and controls. As a natural extension of these, the requirement to demonstrate openness and accountability in their treasury management activities demands that public service organisations create and maintain an audit trail of their treasury management decisions and transactions. This is necessary not only to minimise the risk of being challenged over whether they pursued due processes, but also to help meet unforeseen events. These will include back-up measures to cope with staff absences and the destruction of treasury management records, as well as effecting suitable insurance arrangements. All these need to be kept up to date. Further guidance on the issues to be considered when making treasury management decisions is given in Section 1.3 of these guidance notes.

- **comprehensive records of an organisation's contractual responsibilities and liabilities under treasury management contracts with counterparties to enable it to fulfil its obligations**

Maintaining good working relationships with counterparties can be a vital way of ensuring the smooth running of an organisation's treasury management function. This relates not only to ensuring that timely and accurate payments are made under agreements, but also to good housekeeping matters such as the production of information and accounts.

- **reliable information about the potential for fluctuations in the market value of its investments, borrowings, derivatives and other financings to allow an informed assessment of the potential for capital growth or capital reduction**

The maintenance of the capital value of their funds and the effective control of any liabilities that may be subject to market fluctuations should be high priorities for every public service organisation. Taxation issues are frequently difficult to evaluate and quantify and can have significant consequences for the activities of some public service organisations. Control over these issues demands that organisations have a complete understanding of those treasury management instruments and techniques that are subject to market fluctuations prior to their being used. They should maintain full records of transactions, track actual and potential movements in values, and be familiar with the methods available to limit any potential losses.

When undertaking reviews of risk, it is important for an organisation to consider any optionality it may have in relation to its investments or borrowings, ie any instruments that have built-in options for borrowers or lenders. For example, the repayment of a loan arising through the exercise of a lender's option, borrower's option (LOBO) agreement could alter an organisation's exposure to liquidity, interest rate, refinancing or market risk.

1.2 PERFORMANCE MEASUREMENT IN THE PUBLIC SERVICES

CIPFA advocates the principle that all public service organisations should create appropriate methods by which the performance of their treasury management activities can be measured. They can thereby help to judge whether they are gaining value for money from the resources devoted to these activities, particularly in meeting their wider business and service objectives.

CIPFA recognises the difficulties organisations face in achieving an appropriate balance between risk containment and value for money but believes that the overriding need for effective risk management should be reflected in their treasury management policy statement and treasury management practices.

Performance measurement in treasury management is a process designed to calculate the effectiveness of a treasury manager's borrowing costs (net of treasury investment income), or (if a net investor) investment returns net of any borrowing costs. The resulting data may then be compared with the performance of other organisations, or with recognised industry standards or market indices. In this, it is important to combine investment and borrowing performance in a net result, as treasury cash flow management generally involves both borrowing and lending at various times.

The benefits and applications of performance measurement in the public services include:

1 using past experience beneficially to future treasury management policies and practices

2 by developing an appreciation of the factors influencing performance, improving the future processes of treasury decision making

3 allowing organisations to assess the potential for adding value through changes to the existing ways in which a portfolio is managed

4 demonstrating an awareness of the need to review regularly the value attached to the treasury management function and enhancing accountability

5 enhancing the information available to organisations when seeking to review an existing manager's performance or when selecting a new manager

6 permitting an informed judgement and decision about the merits or otherwise of using new treasury management instruments or techniques.

These guidance notes are not intended as a comprehensive guide to the subject of performance measurement in the public services. However, the following general points may serve to assist organisations in avoiding some of the most frequently encountered difficulties. CIPFA stresses the need for organisations to be aware of the possibly considerable costs involved in performance measurement and to evaluate the justification for incurring those costs in the context of the potential benefits.

The selection of appropriate measures and benchmarks is critical to securing value from performance measurement. Their precise nature and construction need to be fully understood to reduce the likelihood of reaching misleading conclusions and therefore making ill-informed decisions. **All benchmarking should consider risk as well as return.** For example, when selecting appropriate measures by which to judge the investment performance of a cash investment portfolio, there are merits in selecting market indices that closely match the organisation's own cash investment and risk profiles. Alternatively, it may be useful to compare performance with indices that demonstrate the performance the organisation might have expected to achieve had it handled its investment activities differently, especially to judge the relative benefits of passive and active investment management.

Caution should be applied when analysing the performance of other organisations, as it is important to establish whether the characteristics of their treasury management activities are truly comparable. It is misleading, for example, to draw conclusions about the respective performances of different organisations without first establishing the positions they take with regard to risk, since this can materially influence investment performance. It is similarly unhelpful to make comparisons between the performance of investment funds that are internally managed and those that are invested by firms of external investment managers. The latter are frequently able to make longer-term investment decisions, whereas the former often deal only with peaks and troughs of the organisation's cash flows.

CIPFA supports the use of risk benchmarks in measuring treasury management performance.[1]

1. **Better Benchmarking for High Performance** (CIPFA, 2010).

1.3 DECISION MAKING AND ANALYSIS IN THE PUBLIC SERVICES

CIPFA considers it vital that the treasury management decisions of organisations in the public services should be subjected to prior scrutiny. The treasury management strategy is approved annually by full board/council, which is a strength. The treasury management strategy should be supplemented by the provision of monitoring information and regular review by board members/ councillors in both executive and scrutiny functions. It also believes that records should be kept of the processes and the rationale behind those decisions. This is necessary not only for the purpose of allowing a historical assessment of the effectiveness of such decisions, but also as a means of ensuring that appropriate checks and safeguards are in place in the event, for example, of it becoming necessary to demonstrate the legality or probity of transactions. However, in determining the records to be kept, realism is needed to avoid creating a system that may overburden resources and outweigh the potential benefits.

The nature and scope of a particular organisation's treasury management function will determine the precise issues to be considered in reaching treasury management decisions, and the analysis and the methodology to be applied.

However, CIPFA gives the following general guidance on the issues to be considered in connection with various aspects of an organisation's treasury management activities, and which an organisation should demonstrate it has considered.

In respect of every decision made, the organisation should:

- above all, be clear about the nature and extent of the risks to which the organisation may become exposed
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping
- ensure that relevant due diligence has taken place
- ensure that counterparties are judged satisfactory in the context of the organisation's creditworthiness policies and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

In respect of borrowing and other funding decisions, the organisation should:

- consider the ongoing revenue liabilities created and the implications for the organisation's future plans and budgets
- evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation's planned borrowing needs (eg by use of a liability benchmark) in order to avoid borrowing too much, too little, too long or too short.
- evaluate the economic and market factors that might influence the manner and timing of any decision to fund
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

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
- consider the need for borrowing (both the amount and period): if the investment amount or period is not necessary for treasury management liquidity purposes, the objectives and justification for the investment need to be set out clearly
- consider the optimum period in the light of cash flow availability and prevailing market conditions.
- consider the alternative investment products and techniques available, especially the implications of using any that may expose the organisation to changes in the value of its capital.

In respect of decisions regarding derivatives, the organisation should:

- be able to demonstrate that the derivative transaction has reduced the organisation's overall exposure to treasury risks.

1.4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

CIPFA's recommended wording of an organisation's treasury management practices makes clear the importance it attaches to defining the boundaries of the treasury management function. This should embrace not only the organisation's treasury management activities, but also the instruments, methods and techniques it may use. There is a wide variety of legal and regulatory frameworks for different public service organisations in this respect.

The matters CIPFA considers it desirable for all organisations to include in the schedules to their treasury management practices are listed in Section 2 of these guidance notes. The following paragraphs explain why CIPFA considers it important that organisations are clear about the treasury management instruments, methods and techniques they may use.

As a general rule, the organisations that comprise the public services are not driven by commercially motivated objectives. That is not to say they are unaware of the need to be efficient in the way they run their services and businesses. It implies that they have influences on their activities that demand wider issues be taken into account when reaching decisions, notably the need to protect public funds.

The legal and regulatory frameworks governing their activities reflect this in the overriding requirement to control risk. However, many organisations in the public services have the necessary statutory authority to employ treasury management instruments that, if not properly controlled, can expose an organisation to considerable risk.

It is therefore CIPFA's view that organisations need to consider carefully whether they are equipped with the skills and experience to evaluate and control the risks and advantages associated with using the instruments available to them. Only instruments that the organisation has the skills and experience to evaluate should be included in their approved list, even if they are legally permitted to do so.

In certain parts of the public services, regulation prescribes formal processes to determine whether a particular organisation should be allowed access to the full range of instruments available to it. Whether this is or is not a feature of an organisation's regulatory controls, CIPFA believes that an organisation should regularly make an assessment of its treasury management skills and resources.

This is especially true of organisations that have traditionally placed reliance on brokers and other market practitioners to introduce them to, and help them evaluate and execute, transactions involving novel techniques, the risks of which may not be immediately or wholly apparent.

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

CIPFA considers that there are certain organisational features that should be commonly applied to the treasury management activities of all public service organisations, regardless of their size, functions and resources. These relate both to the boards/councils responsible for creating and monitoring policy issues and to the officers responsible for managing and executing decisions.

Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures.

As regards officer responsibilities, CIPFA considers it vital that there should be a clear division of responsibilities, including a written statement of the duties of each post engaged in treasury management. It is especially important that staff responsible for negotiating and closing deals are not responsible for recording them, or for maintaining the cash book. Also, staff who are executing the deals should not be responsible for checking that policies and procedures have been complied with. This is in order to create a framework for internal check and reflects both the variety of activities in treasury management and the often very large sums involved. CIPFA recognises that in smaller organisations and those with limited resources, this is more difficult to achieve. Nevertheless, it is a principle to be acknowledged universally and applied as far as is reasonably practicable.

CIPFA considers clearly defined responsibilities for the approval and scrutiny of treasury management activities to be an essential element of a public service organisation's treasury management arrangements.

The TM Code recommends the adoption of the following:

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.

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 they are a CIPFA member, CIPFA's Standard of Professional Practice on treasury management.

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 the 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.

Source: The TM Code – Clauses to be formally adopted.

The following is a list of the main tasks involved in treasury management and a suggested allocation of responsibilities.

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- receiving and reviewing material borrowing and investment decisions
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body
- receiving and reviewing material investment decisions and reports (eg annual strategy, mid-year review, year-end report).

(iv) The responsible officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- submitting material borrowing and investment decisions
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function

- ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit and liaising with external audit
- recommending the appointment of external service providers.

(v) Treasury manager

- transaction decisions and execution in accordance with delegations, policy and strategy
- adherence to agreed policies and practices on a day-to-day basis
- maintaining relationships with counterparties and external service providers
- supervising treasury management staff
- monitoring performance on a day-to-day basis
- submitting management information reports to the responsible officer
- identifying and recommending opportunities for improved practices.

Where an organisation produces a capital strategy, approved by full board/council, approval of detailed processes may be delegated to a committee or sub-committee of the board/council provided that the capital strategy includes the following as a minimum:

- 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 required over the long term to fund the organisation's approved budgets and plans (eg by identifying its liability benchmark)
- a projection of financial investments (where material), analysed between investments for treasury management purposes, service purposes and commercial purposes, and the organisation's strategy relating to investment activities and risks
- 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 how these are managed, along with commentary on the sensitivity of projections
- a summary of the knowledge and skills available to the organisation and confirmation that these are commensurate with the organisation's risk appetite.

In such cases, the approval of a separate treasury management strategy is not required by full board/council.

CIPFA believes that delegation of approval of the detail of the treasury management strategy and ongoing monitoring should be permitted where this facilitates more active discussion of the strategy and performance by those with the most appropriate skills and knowledge. Responsibility at all times, however, remains with full board/council, who should have access to the full treasury management strategy, annual report and in-year monitoring, and the ability to seek clarification/ask questions.

The allocation of responsibilities for tasks in (ii) to (iv) above may be influenced by other, wider issues in the way an organisation structures its treasury management function; however, overall responsibility for treasury management at all times remains with the full board/council. Each organisation needs to decide on the arrangements most suited to its particular circumstances for the purpose of achieving these aims, although certain organisations in the public services have

particular statutory or regulatory responsibilities placed on their officers and board/committee members. Organisations should ensure that adequate reporting is taking place, given the pressure from other responsibilities and agenda items. A separate scrutiny committee for treasury management may be appropriate in order to ensure an appropriate level of challenge.

A further principle that is critical to the effectiveness of a treasury management function is the recognition of the benefits to be gained from centralising the resources devoted to the function and having an integrated system for overall control. Centralisation and system integration can bring several benefits, including:

- economies of scale
- a single point of control
- coherence of treasury activities
- pooling of expertise
- ease of communications.

1.6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

A key recommendation of the TM Code is that an organisation's treasury management policy statement should specify formal reporting arrangements to include, as a minimum, annual reports both before mid-year and after the year-end. The monitoring reports for local authorities should include the treasury management indicators detailed in the sector-specific guidance notes.

The details of each organisation's reporting arrangements will be a matter for local decision, but in CIPFA's view, there should at least be a mechanism for reviewing the organisation's policies, and for assessing the effectiveness of the last year's treasury management activities and the performance of the treasury management function.

The reporting arrangements should consider the frequency of reporting, the level of detail reported and also the level within the organisation at which reporting takes place. The reporting arrangements should be a minimum, with additional reporting undertaken as deemed necessary to ensure that those responsible for treasury management are kept fully informed.

The following is a suggested process for reporting to the organisation (ie full board/council or delegated committee or sub-committee) and the body responsible for scrutiny.

Annual reporting requirements before the start of the year

- review of the organisation's approved clauses, treasury management policy statement and practices
- strategy report on proposed treasury management activities for the year.

Mid-year review

- activities undertaken
- report of material treasury decisions
- variations (if any) from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities.

Annual reporting requirements after the year-end

- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- report of material treasury decisions taken in year
- compliance report on agreed policies/practices and on statutory/regulatory requirements
- performance report
- report on compliance with CIPFA TM Code recommendations
- monitoring of treasury management indicators for local authorities.

The detail to be included in these reports will vary depending on an organisation's circumstances. Some organisations may report full details, for example, of transactions undertaken, while others will report only summarised information.

Whatever form the reports take, they should ensure, as a minimum, that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Regular and meaningful management information on day-to-day activities is also an essential characteristic of an effectively organised treasury management function. The form and frequency of management reports will reflect the scope and nature of an organisation's treasury management activities.

1.7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

CIPFA recommends that all public service organisations bring together, for budgeting and management control purposes, all the costs and revenues associated with an organisation's treasury management activities, regardless of how the organisation has actually organised the treasury management function. This enhances accountability, improves awareness of the resource implications of the function, permits the setting of meaningful performance measures, and increases the effectiveness of value for money and comparative reviews.

Budgeting and accounting for treasury management in the public services differ markedly between the various bodies that comprise it and are often prescribed by statute or regulation or are the subject of recognised conventions. As a minimum, however, CIPFA recommends that all organisations' treasury management budgets and accounts should clearly identify:

- staffing numbers and related costs
- premises and other administrative costs
- interest and other investment income
- debt and other financing costs (or charges for the use of assets)
- bank and overdraft charges
- brokerages, commissions and other transaction-related costs
- external advisors' and consultants' charges.

It is normal practice for the external auditor to have access to all papers supporting and explaining the operation and activities of the treasury management function. The auditor will be expected to enquire as to whether the TM Code has been adopted and whether its principles and recommendations have been implemented and adhered to. Any serious breach of the TM Code's recommendations should be brought to the external auditor's attention.

1.8 CASH AND CASH FLOW MANAGEMENT

CIPFA believes that the preparation of cash flow projections on a regular and timely basis provides a sound framework for effective cash management in the public services. Procedures for their preparation and review/modification, the periods to be covered, sources of data, etc should be an integral part of the schedules to an organisation's approved treasury management practices.

There are substantial differences between the various sectors within the public services in the nature and profiles of their cash flows, and therefore in their cash flow management practices and requirements.

CIPFA recommends that every public service organisation should, as a minimum, prepare cash and cash flow management forecasts and actuals to be able to determine:

- whether minimum acceptable levels of cash balances plus short-term investments might be (or have been) breached
- the adequacy (or otherwise) of standby/overdraft facilities or other contingency arrangements
- the optimum arrangements to be made for investing and managing surplus cash
- the need for borrowing, especially long-term borrowing, in relation to the amount, timing and period of borrowing required to fund the organisation's plans (with reference to a liability benchmark where possible).

Where capital expenditure and investment are 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.

CIPFA also believes that organisations should put in place proper policies and practices concerning the management of their relationships with their debtors and creditors. As a minimum, CIPFA believes these should include:

- payment scheduling to take account of cash flow and agreed terms of trade
- pricing and charging policies
- monitoring the levels of debtors and creditors to enable corrective action for cash flow purposes
- making effective use of clearing bankers' services, particularly concerning clearance of funds and low-cost funds transmission.

1.9 MONEY LAUNDERING

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement that a person knows or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction.

Other offences under the POCA include:

- failure to disclose money laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment. Organisations pursuing relevant business were required to appoint a nominated officer and implement internal reporting procedures, train relevant staff in the subject, establish internal procedures with respect to money laundering, obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In order to ensure compliance is appropriately managed, businesses will need to ensure sufficient senior management oversight, appropriate analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures, and other information to personnel.

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and may commit most of the principal offences under the POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations. However, as responsible public bodies, they should employ policies and procedures that reflect the essence of the UK's anti-terrorist financing and anti-money laundering regimes, and it is for individual organisations to evaluate the prospect of laundered monies being handled by them, and to determine the appropriate safeguards to be put in place. It is the legal responsibility of every person engaged in treasury management to make themselves aware of their personal responsibilities, but CIPFA recommends that organisations bring them to their staff's attention and consider the appointment of a member of staff to whom they can report any suspicions.

For more on the application of the UK anti-money laundering regime to public authorities, see the guidance in the 2020 CIPFA publication **Combating Financial Crime**.

1.10 TRAINING AND QUALIFICATIONS

All public service organisations should be aware of the complexity of treasury management in general and its application to the public services in particular. Modern treasury management demands appropriate skills, including a knowledge of money and capital market operations, an awareness of available sources of funds and investment opportunities, an ability to assess and control risk, and an appreciation of the implications of legal and regulatory requirements.

Every public service organisation should secure the necessary training, having assessed the professional competence of both those involved in the treasury management functions and those with a policy, management or supervisory role. Arrangements to ensure the availability of suitable skills and resources should recognise the prospect that staff absences may, at times, demand that others step in who do not normally have involvement on a day-to-day basis with the treasury management function.

Public service organisations have a responsibility to ensure that those charged with governance have access to the skills and knowledge they require to carry out this role effectively. The organisation should ensure that this also applies to treasury management.

Those charged with governance also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

Knowledge and skills policy development

The CIPFA TM Code expects all organisations to have 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 management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. The suggested schedules to TMP10 suggest likely contents in three areas:

Competencies

As a part of ensuring that treasury management staff and board/council members have the requisite knowledge and skills, it will be important that the organisation specifies the competencies for each role. As a minimum, the organisation should specify the competencies for the roles listed below:

- the treasury manager
- the responsible officer
- chief finance officers (in local authorities, section 151/section 95 officers)
- board/council members.

Knowledge and skills schedule

This is a formal and comprehensive knowledge and skills schedule to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision making and compliance with legislative requirements.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise their delegated responsibility on behalf of the authority. It is up to each authority to consider what the appropriate competencies are for their function and the level of knowledge required for each individual.

The way in which training can be delivered will vary, and authorities should ensure that appropriate methods are made available, having regard to those who are in receipt of the training. Training may be provided in-house or externally. These may include:

- in-house training days
- external training events provided by an independent body
- reading material/documentation/information
- seminars and conferences offered by industry-wide bodies
- online training, including webinars, which can be developed internally or by industry-wide bodies
- telephone conference briefings
- qualifications, particularly relevant to senior and responsible officers.

Training plans should include the competencies highlighted in this schedule (or alternative competencies that may be adopted by an authority), as well as special topics – for example:

- focused on decisions to be made in the treasury management strategy
- relating to areas of change or special interest.

Monitoring and review

Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date. As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

1.11 USE OF EXTERNAL SERVICE PROVIDERS

There are substantial numbers of service providers available to support the treasury management activities of public service organisations. However, the skills of the in-house team should be maintained in order to ensure that the services and advice provided can be understood and challenged.

In treasury management, one of the most active and long-standing service providers has been the money-broking companies, whose role it is to act as intermediaries, making introductions between the prospective parties to transactions.

It is not the role of brokers to provide advice on the creditworthiness of those organisations to which public service organisations may lend. They may provide information already in the public domain but may not interpret it. The use of brokers is a matter for local decision, but it is considered good practice, if their services are used, to ensure that business is spread between a reasonable number of them, and certainly no fewer than two.

Direct dealing with principals is a not uncommon feature of treasury management in the public services, which, if nothing else, can provide a useful check on brokers' performance.

An issue that causes some debate is whether it is necessary or desirable for public service organisations to tape conversations with brokers and principals. This is a matter for

local discretion, particularly in the context of the costs involved, but is generally to be recommended.

Most public service organisations require the services of clearing bankers, and a growing number make use of the services of a wider group of banks, particularly to meet their need for private finance and partnership funding.

Public service organisations often employ external advisors and consultants, often for the purposes of a general treasury management advisory service, but also for specific purposes, such as the securing and structuring of funding and for partnership arrangements.

Further, many public service organisations employ the services of external investment managers to help manage their surplus cash and, where relevant, their pension fund, trust fund or endowment fund assets.

Other external providers may include software providers, investment banks and credit rating agencies.

CIPFA advises all organisations using the services of external service providers to document comprehensively the arrangements made with them, to be clear as to the services provided and any indemnities provided, and to ensure that these meet the organisation's needs. Services should be subject to regular competition, which would usually be via a competitive tendering process.

Organisations should be mindful of the requirements of the Bribery Act 2010 in their dealings with external providers.

The overall responsibility for treasury management must always remain with the organisation.

1.12 CORPORATE GOVERNANCE

The TM Code recommends that public service organisations state their commitment to embracing the principles of corporate governance in their treasury management activities, notably openness and transparency.

It is CIPFA's view that:

- adoption of the principles and policies promoted in the TM Code and in these guidance notes will, in itself, deliver the framework for demonstrating openness and transparency in an organisation's treasury management function
- publication of and free access to information about an organisation's treasury management transactions and other public documents connected with its treasury management activities will further assist in achieving this end
- establishing clear treasury management policies, the separation of roles in treasury management and the proper management of relationships both within and outside the organisation will establish the integrity of the function
- robust treasury management organisational structures, together with well-defined treasury management responsibilities and job specifications, will enhance accountability
- equality in treasury management dealings, absence of business favouritism and the creation of keen competition in treasury management will lay the groundwork for fairness.

The following paragraphs further emphasise the practices that CIPFA believes an organisation should employ to ensure the principles of corporate governance are successfully implemented.

Procedural responses

The policies and strategies of treasury management should link clearly to the organisation's other key policies and strategies. In the management of risk in particular, treasury risk management should be an integral part of its overall risk management processes, culminating in a well-defined, organisation-wide strategy for the control of risk and contingency planning.

The management and administration of treasury management should be robust, rigorous and disciplined. Over the years, some of the most significant examples of treasury mismanagement in both the public services and the private sector have resulted from procedural indiscipline. This has frequently been as a result of a failure to apply otherwise well-documented management

and administration systems, or through failures in transmission, documentation or deal-recording processes.

Reporting arrangements should be applied to ensure that those charged with responsibility for the treasury management policy have all the information necessary to enable them to openly fulfil their obligations, and that all stakeholders are fully appraised of and consulted on the organisation's treasury management activities on a regular basis.

The procedures for monitoring treasury management activities through audit, scrutiny and inspection should be sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change.

The application and interpretation of performance data should be clear, concise and relevant to the organisation's treasury management activities.

Stewardship responsibilities

The responsible officer should ensure that systems exist to deliver proper financial administration and control, and a framework for overseeing and reviewing the treasury management function.

As regards a control framework, an organisation's formal policy documents should define clearly procedures for monitoring, control and internal check.

With regard to delegation, it is vitally important that those involved in the implementation of treasury management policies and the execution of transactions are unambiguously empowered to undertake their tasks, and that reporting lines are well defined.

An organisation's adoption of and adherence to the TM Code should be widely broadcast, as should the principles of the TM Code and the method of its application in the organisation.

The organisation's procedures for reviewing the value of the treasury management function, and the implementation of opportunities for improvement, should be both continuous and open to examination.

The governance of others

In respect of the organisation's dealings with counterparties, external service providers and other interested parties, clear procedures should exist to enable the organisation, as far as is practicable, to monitor their adherence to the legal or regulatory regimes under which they operate.

Where external funds are managed on behalf of a third party or pension fund, these funds should be separately identifiable, and income and expenditure attributed in line with an agreed policy.

1.13 ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK MANAGEMENT

Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult.

Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies. It is not expected that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

SECTION 2

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

The following paragraphs give suggestions to public service organisations on the schedules they might prepare and maintain in support of their approved treasury management and investment practices. CIPFA suggests that these schedules be maintained and updated as necessary, and that they form an integral part of an organisation's treasury management manual.

Additionally, where documentation or contracts exist – for example, as evidence of relationships with external service providers – CIPFA suggests that their existence should be referred to in the schedules, and that a full copy, or a minimum of a brief summary, of their terms, conditions, maturity dates and renewal arrangements should be appended.

CIPFA recognises that not all these schedules will be relevant or appropriate to every organisation covered by the TM Code and these guidance notes.

RISK MANAGEMENT

Credit

- criteria to be used for creating/managing approved counterparty lists/limits
- approved methodology for changing limits and adding/removing counterparties
- counterparty policy and practices relating to ESG issues
- full, individual listings of counterparties and counterparty limits
- country, sector and group listings of counterparties and the overall limits applied to each where appropriate
- details of credit rating agencies' services and their application
- description of the general approach to collecting and using information other than credit ratings for counterparty risk assessment.

Liquidity

- amounts of approved minimum cash balances and short-term investments
- details of:
  - standby facilities
  - bank overdraft arrangements
  - short-term borrowing facilities
  - insurance/guarantee facilities
  - other contingency arrangements
- policy in terms of borrowing earlier than required to meet cash flow needs.

Interest rate

- details of approved interest rate exposure limits
- trigger points and other guidelines for managing changes to interest rate levels
- minimum/maximum proportions of variable rate debt/interest
- minimum/maximum proportions of fixed rate debt/interest
- policies concerning the use of financial derivatives for interest rate risk management.

Exchange rate

- details of approved exchange rate exposure limits for cash investments/debt
- approved criteria for managing changes in exchange rate levels
- policies concerning the use of financial derivatives for exchange rate risk management.

Refinancing

- debt/other capital financing maturity profiling, policies and practices
- projected capital investment requirements
- policy concerning limits on revenue consequences of capital financings.

Legal and regulatory

- references to relevant statutes and regulations
- procedures for evidencing the organisation's powers/authorities to counterparties
- required information from counterparties concerning their powers/authorities
- statement on the organisation's political risks and management of same.

Operational risk, including fraud, error and corruption, and contingency management

- details of systems and procedures to be followed, including internet services
- emergency and contingency planning arrangements
- insurance cover details.

Market value of investments

- details of approved procedures, limits and reporting of exposure to investments whose capital value may fluctuate.

PERFORMANCE MEASUREMENT

- methodology to be applied for evaluating the impact of treasury management decisions
- policy concerning methods for testing value for money in treasury management, eg:
  - frequency and processes for tendering
  - banking services
  - money-broking services
  - cash/fund management services
  - consultants'/advisors' services
  - other providers' services
- methods to be employed for measuring the performance of the organisation's treasury management activities
- benchmarks and calculation methodology with regard to aggregate (or net) risk and return on borrowings and investments together.

DECISION MAKING AND ANALYSIS

- funding, borrowing, lending and new instruments/techniques:
  - records to be kept
  - processes to be pursued
  - issues to be addressed.

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- listings and individual limits for the use of:
  - approved instruments
  - approved methods
  - approved techniques
  - approved investments.

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

- limits to responsibilities/discretion at committee/executive levels
- principles and practices concerning segregation of duties
- treasury management organisation chart
- statement of duties/responsibilities of each treasury/relevant post
- absence cover arrangements
- dealing/approval limits
- list of approved brokers
- policy on brokers' services
- policy on taping of conversations
- direct dealing practices
- settlement transmission procedures
- documentation requirements
- arrangements concerning the management of counterparty funds.

REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

- content and frequency of board/committee reporting requirements
- content and frequency of management information reports.

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- statutory/regulatory requirements
- accounting practices and standards
- list of information requirements of external auditors.

CASH AND CASH FLOW MANAGEMENT

- arrangements for preparing/submitting short-term cash flow statements
- arrangements for preparing/submitting medium to long-term forecasts of the organisation's net debt (or net investment) requirements consistent with its approved plans, eg through development of a liability benchmark
- content and frequency of cash flow budgets
- listing of sources of information
- bank statements procedures
- payment scheduling and agreed terms of trade with creditors
- arrangements for monitoring debtor/creditor levels
- procedures for banking of funds
- practices concerning prepayments to obtain benefits.

MONEY LAUNDERING

- procedures for establishing identity/authenticity of lenders
- methodology for identifying sources of deposit.

TRAINING AND QUALIFICATIONS

Competencies for key roles:

- the treasury manager
- the responsible officer
- the chief financial officer
- board/council members.

A knowledge and skills schedule, including:

- the aims and objectives of the knowledge and skills schedule
- legislation, guidance and other specifications (eg MiFID II, CIPFA Treasury Management Code of Practice, statutory investment guidance issued by government) that must be understood and complied with to ensure that staff or board/council members are able to fulfil their roles
- the staff/role or board/council members to whom the policy applies
- competencies for each role
- how the training will be delivered, eg in-house training, external courses (specifying the type of course followed)
- the need for formal qualifications (this would include induction requirements)
- how regularly the training will need to be provided
- how training will be recorded
- how the knowledge or skills will be monitored, including gaps in training, or how the requisite knowledge will be determined
- how, where and when reports will be provided on the monitoring and review of the requirements of the knowledge and skills schedule.

Monitoring and review of knowledge and skills, including:

- a record of attendance at training
- tailored learning plans for treasury management officers and board/council members
- self-assessments by treasury management officers and board/council members against the required competencies for their role.

USE OF EXTERNAL SERVICE PROVIDERS

- details of contracts with service providers, including bankers, brokers, consultants and advisors, and details of the services provided
- regulatory status of services provided
- procedures and frequency for tendering services.

CORPORATE GOVERNANCE

- list of documents to be made available for public inspection
- procedures for consultation with stakeholders
- list of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments.

SECTION 3

Guidance on investments that are not part of treasury management activity

For any investments the organisation makes, the organisation should understand the powers under which the investment is made, the extent to which the capital invested is placed at risk and the impact of any potential losses on the financial sustainability of the organisation. This should be reviewed on a regular basis to take account of changes in market and other conditions.

This section provides guidance for organisations that invest for reasons that are not part of treasury management activity. This might include investments in service partners or charities, or investments made or held primarily for financial return (including commercial property).

It is recognised that such investments are often managed in parts of the organisation outside treasury management teams and governance, but directors of finance and treasury staff should generally have some understanding of and part in the management of such investments within the organisation.

Section 8 of the TM Code categorises investments according to the reasons they are held:

- for treasury management purposes
- for service delivery purposes
- for commercial purposes, including non-financial assets held primarily for financial return, such as commercial properties.

It is suggested that these three purposes are likely to cover all the investments of public service organisations.

These three reasons for investment will result in very different investment objectives, criteria and investment types. Organisations are therefore required by the TM Code to keep the appropriate categories of investments distinct in their reporting. The treasury management policy statement, strategy and regular reporting should include all the organisation's investments, including service and commercial investments, so that it is clear what the investment objectives, criteria, risk management, policies and actual performance are.

Allocating investments into appropriate categories is a matter of judgement for the organisation's responsible officer under the TM Code. In practice, the investment purposes will usually be clear to directors of finance and treasury staff; it would be a matter of concern if they were unclear.

Organisations are required to establish investment management practices for their non-treasury management investments, similar to their treasury management practices. The IMP recommends a schedule for each such investment portfolio, setting out the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.

The nature and format of these schedules will depend on the type of non-treasury investment activity of the organisation concerned.

The basic principle is that the TM Code covers all investments, and the organisation should ensure that it has due diligence, investment management and risk management arrangements in place and monitored actively for its service and commercial investment portfolios, as well as for its treasury management investments.

Some non-treasury investments require specialist skills that the organisation may not have in-house. It should ensure that any appropriate advice is obtained, and that its staff and decision makers have a sufficient understanding of the nature and risks of the investments concerned.

It is critical that due diligence processes and procedures reflect the additional risk an organisation is taking on. Due diligence procedures should ensure effective scrutiny of proposed investments, identification of risk to both capital and returns, any external underwriting of those risks, and the potential impact on the financial sustainability of the organisation if those risks come to pass. Where necessary, independent and expert advice should be sought to ensure due diligence is suitably robust.

SUGGESTED CONTENT OF SCHEDULES FOR AN ORGANISATION'S NON-TREASURY INVESTMENT MANAGEMENT PRACTICES

The cross-references to TMPs in brackets below indicate where the equivalent issue is dealt with in TMPs:

- investment objectives
- investment criteria
- risk management (TMP1 and schedules), including risk identification, controls, management and monitoring for any material non-treasury investment portfolios
- performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments
- decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments, and arrangements to ensure that appropriate professional due diligence is carried out to support decision making
- reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken
- training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

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South East Wales Corporate Joint Committee
2024/25 Treasury Management Strategy Statement (incorporating the Capital Strategy)

Introduction

The South East Wales Corporate Joint Committee (CJC) encompasses ten local authority areas in South East Wales, including Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen, and the Vale of Glamorgan. Home to 1.5 million people, it represents nearly half of Wales's total population. This diverse region includes the cities of Cardiff and Newport, several market towns, the industrial core of the South Wales Valleys, rural communities, and a coastal area.

The information contained within this document is exclusively related to CJC's treasury investments, except for certain sections of the Welsh Investment Guidance included in the Appendix C. For guidance on non-treasury investments, please refer to the documentation associated with CCR's investment framework.

To support the CJC with it treasury management activities, the 2024/25 Accountancy Service Level Agreement (SLA) with RCT has been updated to include support with these arrangements. The CJC has agreed that its surplus cash balances will be 'pooled' with RCT's cash balances and invested in accordance with RCT's approved Treasury Management Strategy Statement, which compliments the CJC's own strategy. Details of the arrangements (along with roles and responsibilities) are set out in the SLA.

CJC's Treasury Management documentation will apply, where investment decisions are taken by the CJC, whereas pooled funds will be subject to RCT Treasury Practices. Whilst it is unlikely, where there is a conflict in TMSS & Strategy, monies held by CJC will be subject to the CJC's Treasury Management Principles and Schedules Statement. Monies pooled with RCT will be subject to their own Principles and Schedule Statement.

The CJC is unlikely to borrow or have a borrowing requirement but a borrowing section has been left in the Treasury Management Strategy Statement for completeness.

Treasury management is the management of the CJC's cash flows, borrowing and investments, and the associated risks. The CJC has the potential to invest substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the CJC's prudent financial management.

Treasury risk management at the CJC is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the CJC to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the CJC to approve an investment strategy before the start of each financial year. This report fulfils the CJC's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the CJC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change

significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, in the CJC's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

The Prudential Code requires the approval of a Capital Strategy, the purpose of which is to firmly place decisions around borrowing and investing in the context of the overall longer-term position of the CJC.

The Capital Strategy can be tailored to an organisation's local circumstances at a level that provides sufficient information to those charged with the governance of the organisations overall financial position. Rather than produce a separate report, the following checklist provides details of the areas that would need to be included in a Capital Strategy and will provide information on where this information can be found (as the organisation progresses then a separate document will be produced in future years):

Information Required	Information Source
Link between Capital budget and Corporate Priorities	Corporate Plan, Asset Management Plan
Long-Term forecast of capital spend capital receipts and capital borrowing	MTFP, Capital Programme
Long-term projection of external borrowing	Treasury Strategy
Liability Benchmark projection	Treasury Strategy
Details of the Authorised Limit and Operational Boundary	Treasury Strategy
Information on Treasury Management decision making and scrutiny	Treasury Strategy
Details of CCR's Treasury Management Investment decision making process	Treasury Strategy
Outline of the CCR's objectives and risk appetite for any investments made purely for commercial return	Investment Strategy
Information on how skills and knowledge of staff and members are monitored against the borrowing and investment activities that take place	Treasury Strategy
Details of any advisors used in complying with the relevant Codes and Guidance	Treasury Strategy

External Context

Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with

war in Ukraine and the Middle East, will be major influences on the CJC's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 4.6% in October 2023, a higher-than-expected fall from 6.7% in September. Month-on-month CPI remained unchanged in October 2023, compared to the 2.0% rise reading in October 2022. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half of 2025 and into 2026.

ONS figures showed the UK economy grew by 0.2% between April and June 2022. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2023): Although UK inflation and wage growth remain elevated, the CJC's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 5%, and that new long-term loans will be borrowed at an average rate of 5%.

Local Context

On 31st December 2023, the CJC held £0m of borrowing and £67.97m of treasury investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Capital financing requirement	**0**	**0**	**0**	**0**	**0**
Less: External borrowing	0	0	0	0	0
Internal (over) borrowing	**0**	**0**	**0**	**0**	**0**
Less: Balance sheet resources	46.7	44.0	47.2	47.2	56.2
Less: Equity Sales	0	0	0	0	10
Treasury investments (or New borrowing)	46.7	44.0	47.2	47.2	66.2

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The CJC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The CJC is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to rise as the CJC receives capital receipts and an increase in revenue reserves from loan principal and interest repayments, and equity sales.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the CJC's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the CJC expects to comply with this recommendation during 2024/25.

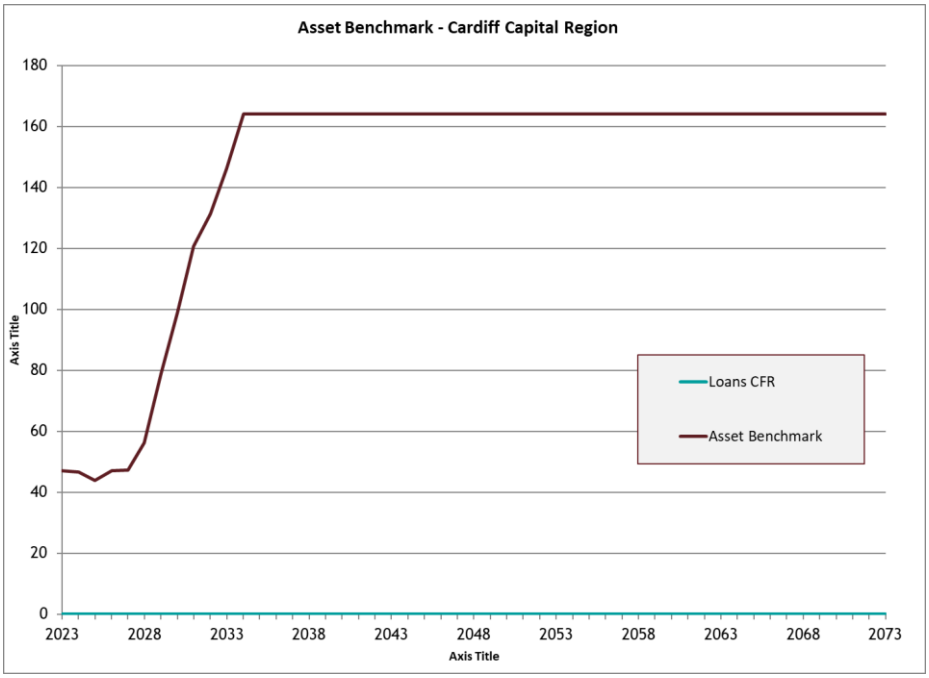
Liability benchmark: To compare the CJC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the CJC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the CJC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow. However, as the CJC is expected to be a long-term investor, it is more appropriate to use an asset benchmark.

Table 2: Prudential Indicator: Asset benchmark

	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR	**0**	**0**	**0**	**0**	**0**
Plus: Balance sheet resources	46.7	**44.0**	47.2	47.2	56.2
Plus: Equity Sales	0	**0**	0	0	10
Net investments	46.7	**44.0**	47.2	47.2	66.2
Less: Liquidity allowance	0	**0**	0	0	0
Asset benchmark	46.7	**44.0**	47.2	47.2	66.2

Following on from the medium-term forecasts in table 2 above, the long-term asset benchmark assumes capital expenditure funded by borrowing of £0m a year, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below as an asset benchmark (inverse liability benchmark):



Borrowing Strategy

The CJC currently holds £0 million of loans and does not forecast any borrowing and has no borrowing requirement. This section of the strategy document is included for completeness.

Objectives: The CJC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the CJC's long-term plans change, is a secondary objective.

Strategy:

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the CJC intends to avoid this activity in order to retain its access to PWLB loans.

The CJC may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the CJC may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body

- UK public and private sector pension funds (except The Rhondda Cynon Taf Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- public-private partnership (PPP)
- sale and leaseback
- similar asset based finance

Short-term and variable rate loans: These loans leave the CJC exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The CJC does not have outstanding PWLB borrowing and does not intend to borrow from the PWLB. However, in the unlikely event that the CJC does borrow, the CJC would benefit from being able to take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The CJC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the next 12 months, the CJC's treasury investment balance is expected to range between £46.7 and £44.0 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: Both the CIPFA Code and the WG Guidance require the CJC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The CJC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the CJC will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The CJC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the asset benchmark above, the CJC expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income. However, the CJC is likely to predominately invest on a short-term basis.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the CJC's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the CJC will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are

signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

The CJC is committed to ensuring that it makes investment decisions responsibly and with integrity.

The Responsible Investing Policy sets out to determine if a project, business or industry should be considered for investment based upon a set of benchmark criteria. The policy is based on 'negative screening' and is used to protect reputation, avoid conflict with core objectives. It sets out a policy position to avoid investing in projects or businesses that do not meet CJC's social, environmental or ethical criteria. The policy has been developed to allow a responsible investment approach, and in line with its strategy of enhancing economic wellbeing while minimising any negative effect on its investment returns – both financial and wider economic outcomes. These principles will be extended to treasury investment decisions (please see appendix D) and will be aligned to CCR's Public Sector Equality Duty and future policies, such as the Biodiversity Compliance Plan.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the CJC's "business model" for managing them. The CJC aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The CJC may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£3m	£5m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £3,000,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the CJC will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the CJC to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the CJC's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the CJC's investment at risk.

Operational bank accounts: The CJC may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £5,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the CJC maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the CJC's treasury advisers, Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Reputational aspects: The CJC is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the CJC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the CJC's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The CJC's revenue reserves available to cover investment losses are forecast to be £46.7million on 31st March 2024 and £44.0 million on 31st March 2025. In order that no more than 12% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£5m per country

Liquidity management: The CJC uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the CJC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the CJC's medium-term financial plan and cash flow forecast.

The CJC will spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The CJC measures and manages its exposures to treasury management risks using the following indicators.

Security: The CJC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The CJC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£5m

Interest rate exposures: This indicator is set to control the CJC's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£500,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£500,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity structure of borrowing: This indicator is set to control the CJC's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments: The purpose of this indicator is to control the CJC's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£40m	£30m	£20m	£10m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

The CIPFA Code requires the CJC to include the following in its treasury management strategy.

Financial derivatives: Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the *Local Government and Elections (Wales) Act 2021* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The CJC will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the CJC is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the CJC will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The CJC has not opted up to professional client status with its providers of financial services not allowing it access to a greater range of services without the greater regulatory protections afforded to individuals and small companies.

Government Guidance: Further matters required by the WG Guidance are included in Appendix C.

Financial Implications

The forecast for investment income in 2024/25 is £2.29 million, based on an average investment portfolio of £45.3 million at an interest rate of 5.06%. The budget for debt interest paid in 2024/25 is £0 million, based on an average debt portfolio of £0 million. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	**5.25**	**5.25**	**5.25**	**5.25**	**5.00**	**4.75**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.00**	**3.00**
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	**5.40**	**5.40**	**5.40**	**5.30**	**5.15**	**4.80**	**4.30**	**4.10**	**3.80**	**3.50**	**3.25**	**3.05**	**3.05**
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	**4.28**	**4.35**	**4.30**	**4.25**	**4.10**	**4.00**	**3.75**	**3.50**	**3.40**	**3.30**	**3.30**	**3.30**	**3.35**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	**4.32**	**4.40**	**4.35**	**4.30**	**4.25**	**4.15**	**4.00**	**3.80**	**3.75**	**3.65**	**3.60**	**3.65**	**3.70**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	**4.78**	**4.70**	**4.65**	**4.55**	**4.45**	**4.35**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	**4.38**	**4.30**	**4.25**	**4.20**	**4.15**	**4.15**	**4.10**	**4.10**	**4.10**	**4.10**	**4.10**	**4.10**	**4.10**
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/2023 **Actual portfolio £m**	31/12/2023 **Average rate %**
Total external borrowing	**0**	**N/A**
Other long-term liabilities:		
Private Finance Initiative		
Leases		
Transferred Debt		
Total other long-term liabilities		
Total gross external debt	0	N/A
Treasury investments:		
The UK Government	56.35	5.20
Local authorities		
Other government entities		
Secured investments		
Banks (unsecured)		
Building societies (unsecured)		
Registered providers (unsecured)		
Money market funds	11.62	5.23
Strategic pooled funds - *split into several rows where appropriate*		
Real estate investment trusts		
Other investments		
Total treasury investments	**67.97**	**5.20**

Appendix C – Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to the treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The CJC's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,

Climate change: The CJC's investment decisions consider long-term climate risks to support a low carbon economy to the extent that it has adopted a Responsible Investing Policy to ensure that it is committed to ensuring that it makes investment decisions responsibly and with integrity. The responsible investment policy prohibits the direct investment in projects or businesses based upon seven parameters:

- Human Rights
- Animal Welfare
- Tobacco
- Gambling
- Deforestation
- Pornography
- Other excluded companies

CCR's Strategic Equality Plan (2024-2028) lays the foundation of our ESG and EDI framework. In line with the Public Sector Equality Duty, our Strategic Equality Plan provides a clear approach to sustainable and inclusive economic growth and regional wellbeing through key Equality Objectives. The Equality Objectives focuses are twofold, outlining both our regional equality ambitions and our internal, organisational aims. The objectives have been designed to align with our existing values and are proportionate to our role and responsibilities in the region.

Going forward, the new powers bestowed upon CCR as a Corporate Joint Committee offer an opportunity for us to refresh and expand our ESG commitments. New strategies and frameworks will be implemented that will build upon our existing work in this space. A revised version Impact Investment Framework will be published, alongside a Net Zero Strategy. Both will establish new ways of working and standards for CCR, in line with our mission and purpose.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community authority, or
  - a body or investment scheme of "high credit quality".

The CJC defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Loans: The WG Guidance defines a loan as a written or oral agreement where the CJC temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local CJC.

The CJC can demonstrate that its financial exposure to loans to local enterprises, local charities, wholly owned companies and joint ventures is proportionate by setting the limits in table C1. These ensure that the total exposure is no more than 100% of the CJC's usable reserves. The CJC's loan book is currently within these self-assessed limits.

Table C1: Loan limits

Borrower	**Cash limit**
Local enterprises	Unlimited
Local charities	Unlimited
Wholly owned companies	Unlimited
Joint ventures	Unlimited
Treasury management investments meeting the definition of a loan	Unlimited

The CJC uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The CJC has appropriate credit control arrangements to recover overdue repayments in place.

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown in table C2; the CJC confirms that its current non-specified investments remain within these limits.

Table C2: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below A-	£25m
Shares in real estate investment trusts	£10m
Shares in local organisations	£30m
Total non-specified investments	£65m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices.

The CJC considers that the scale of its commercial investments including property are proportionate to the resources of the CJC.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the CJC does not currently have any borrowing.

Investment advisers: The CJC has appointed Arlingclose Limited as treasury management advisers and CBRE as property advisors.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The CJC, after having regard to the guidance, has decided to depart from this explicit provision. When a Welsh local authority decides to deviate from the Welsh Government's WG 50-51 guidance, which advises against borrowing for profit, several key legal and procedural steps must be addressed. Firstly, the CJC must identify and justify the legal powers, such as those under the Local Government Act, that permit such borrowing and investment activities. It is crucial to demonstrate the reasonableness of this decision through a thorough risk assessment and alignment with the long-term financial strategy. The CJC should have clear policies for investing borrowed money, prioritising value for money and ensuring the security of these funds through risk diversification and regular monitoring. Finally, this significant decision requires formal approval from the full council, ensuring transparency and accountability in departing from standard guidance. This comprehensive approach is vital to ensure the decision is legally sound, financially prudent, and in the CJC's best interest.

Capacity and skills: In accordance with Welsh Government Investment Guidance 52, it is essential for local authorities in Wales to ensure that elected members and statutory officers possess the required skills and information for effective investment decision-making. Primarily, this involves providing comprehensive training programmes to acquaint them with the nuances of investment strategies and legal frameworks. Concurrently, it's imperative to facilitate access to their independent financial advisor, Arlingclose, offering expert insights into potential investments and their alignment with the CJC's strategic objectives. Additionally, the establishment of detailed policy documents is crucial, outlining clear procedures and guidelines for investment decisions, thereby establishing the evaluation criteria, decision-making processes, and the roles and responsibilities of the involved parties. These measures collectively aim to equip decision-makers with the tools and knowledge necessary for informed and strategic investment choices.

Commercial deals: In line with Welsh Government Guidance 53, to ensure that negotiators of commercial deals for local authorities in Wales are well-versed in the prudential framework and regulatory regime, three key measures are pivotal. Firstly, providing access to experts in local government law and finance is crucial, as they can offer tailored advice on specific deals, ensuring compliance with the regulatory framework. Secondly, it's important to keep the negotiating team regularly informed of any updates in the framework or regulations, which can be achieved through concise briefings or email updates. Lastly, implementing a system of regular checks or audits is essential to confirm adherence to the required standards and principles, thereby safeguarding the local CJC's interests and promoting prudent financial management. This approach ensures that negotiators are not only knowledgeable but also continually aligned with the evolving regulatory landscape.

Corporate governance: In accordance with Welsh Government Guidance 54, Welsh local authorities are encouraged to adopt comprehensive corporate governance arrangements for investment decision-making that emphasise accountability, responsibility, and adherence to corporate values. These arrangements should include clear structures for decision-making, ensuring roles and responsibilities are well-defined and align with the CJC's strategic goals. Transparency in processes and consistent reporting mechanisms are crucial for maintaining stakeholder trust. Investments should reflect the local CJC's core values, integrating these into policies and decision criteria. A strong focus on risk management, aligning with the CJC's risk appetite, is essential for balanced and informed decisions. Regular reviews and audits of investment activities and governance structures help maintain compliance and identify improvement areas. Moreover, stakeholder engagement, and ongoing training for decision-makers, are vital to ensure competence and awareness of best practices. These governance measures collectively aim to uphold public trust and reinforce the integrity of investment activities within the local CJC.

Appendix D – CCR Responsible Investing Policy

The Cardiff Capital Region (CCR) is committed to ensuring that it makes investment decisions responsibly and with integrity.

The CCR Responsible Investing Policy sets out to determine if a project, business or industry should be considered for investment from the CCR, or its subsidiary funds, based upon a set of benchmark criteria. The policy is based on 'negative screening' and is used to protect the CCR reputation, avoid conflict with our core objectives or contradictions with the work of CCR. It sets out a policy position to avoid investing in projects or businesses that do not meet our social, environmental or ethical criteria.

The policy has been developed to allow the CCR to pursue a responsible investment approach, and in line with its strategy of enhancing economic wellbeing while minimising any negative effect on its investment returns – both financial and wider economic outcomes.

The CCR responsible investment policy prohibits the direct investment in projects or businesses based upon seven parameters:

- **Human Rights**: Human rights are the basic rights and freedoms that belong to every person in the world, from birth until death. These rights apply regardless of origin, belief or life choices. Human rights cannot be taken away, but they can be restricted. These basic rights are based on shared values like dignity, fairness, equality, respect and independence, and they are protected by law. Companies and organisations have a responsibility to all their stakeholders, irrespective of geographical location or poor management
    - Exclude companies who do not meet UK/EU human right laws
    - Ensure any company with international operations must meet international human rights laws and standards

- **Animal Welfare**: Animal experiments is objectionable. However, it is needed (and required by law) for medical research and development, and mandated under EU Directive for chemicals and their safe use (REACH)
    - Exclude any company that employs animal research but does not adhere to the 3R's: Replacement, Reduction and Refinement. All research must be governed by Animals (Scientific Procedures) Act 1986 Amended Regulations 2012 (A(SP)A)
    - Exclude companies who do not have an Animals n Research Policy

- **Tobacco**: it is considered that tobacco based substances are fundamentally in conflict with the objectives set in the 'Wellbeing of Future Generations' not only for active smokers but passive smoking also
    - Exclude companies who produce tobacco

- **Gambling**: Gambling addiction is a negative impact on wellbeing, not just in monetary terms but can compromise employment, quality of life, relationships and mental and physical health, and thus increasing demands on local services such as law enforcement, health services etc.
    - Exclude companies that derive >10% revenue from the management or ownership of gambling facilities

- **Deforestation**: Deforestation and poor forestry management has significant impacts on the environment and biodiversity, and must be managed effectively by companies
    - Exclude companies that do not have sustainable management policies and procedures for their forests

- **Pornography**: Pornography is the portrayal of individuals in an abusive and degrading manner that contributes to sexual discrimination and exploitation of the vulnerable, and can be a contributor to violence
    - Exclude companies that are in the pornography industry; production, distribution of material or owning op operating adult establishments

- **Excluded Companies**: working with companies that reflect our values and priorities. Companies who are involved in environmental degradation, human right abuses, child labour, forced labour, fraud, and corruption will be excluded
    - Exclude companies listed in RepRisk : Most Controversial Companies report (https://www.reprisk.com)
    - Exclude companies delisted in accordance with the Communication on Progress Policy to the UN Global Compact (https://www.unglobalcompact.org/participation/report/cop/create-and-submit/expelled)

Whilst operating within these parameters the CCR, and its appointed Fund Managers for subsidiary funds, will be accountable to the Regional Cabinet in terms of performance and adherence to the parameters set out above.

The Responsible Investing Policy is subject to regular review by Regional Cabinet through the Investment Panel. The policy supports the CCR's aspiration for the region to set a route to economic self-reliance as set out in the CCR Economic and Industrial Plan.

Appendix E – Arlingclose's Recommended Counterparty Lists (November 2023)

Bank Name	Unsecured Deposits and CDs	
	Maximum Duration	Maximum Amount
BARCLAYS BANK PLC and BARCLAYS BANK UK PLC	35 days	5% of total exposure
CLYDESDALE BANK PLC	None	None
COVENTRY BUILDING SOCIETY	None	None
HANDELSBANKEN plc	35 days	5% of total exposure
HSBC BANK PLC and HSBC UK BANK PLC	35 days	5% of total exposure
LEEDS BUILDING SOCIETY	None	None
LLOYDS BANK PLC and BANK OF SCOTLAND PLC	35 days	5% of total exposure
LLOYDS BANK CORPORATE MARKETS PLC	None	None
NATIONAL WESTMINSTER BANK PLC, ROYAL BANK OF SCOTLAND PLC and NATWEST MARKETS PLC	35 days	5% of total exposure
NATIONWIDE BUILDING SOCIETY	35 days	5% of total exposure
SANTANDER UK PLC	35 days	5% of total exposure
STANDARD CHARTERED BANK	35 days	5% of total exposure
TSB BANK PLC	None	None
YORKSHIRE BUILDING SOCIETY	None	None

Counterparty	Government, supranational or covered bond collateral	Investment grade corporate bond collateral
BARCLAYS BANK PLC BARCLAYS BANK UK PLC	2 years	1 year
CLYDESDALE BANK PLC	2 years	1 year
HSBC BANK PLC HSBC UK BANK PLC	2 years	1 year
LLOYDS BANK PLC LLOYDS BANK CORPORATE MARKETS PLC BANK OF SCOTLAND PLC	2 years	1 year
NATIONAL WESTMINSTER BANK PLC NATWEST MARKETS PLC ROYAL BANK OF SCOTLAND PLC	2 years	1 year
SANTANDER UK PLC	2 years	1 year
STANDARD CHARTERED BANK	2 years	1 year
TSB BANK PLC	2 years	1 year

Counterparty	Max Duration	Max Amount
UK GOVERNMENT	50 years	Unlimited
BIRMINGHAM CITY COUNCIL - *suspended on 05/09/23.*	NONE	NONE
LONDON BOROUGH OF CROYDON - *suspended on 22/11/22.*	NONE	NONE
SLOUGH BOROUGH COUNCIL - *suspended on 02/07/21.*	NONE	NONE
THURROCK BOROUGH COUNCIL - *suspended on 18/07/22.*	NONE	NONE
TRANSPORT FOR LONDON - *suspended on 10/05/22.*	NONE	NONE
WOKING BOROUGH COUNCIL - *suspended on 26/05/23.*	NONE	NONE
WARRINGTON BOROUGH COUNCIL - *changed on 26/10/23.*	NONE	NONE
ALL OTHER UK LOCAL AUTHORITIES - *we may advise a longer duration following due diligence.*	2 years +	10%

Bank Name	Deposits and CDs	
	Maximum Duration	Maximum Amount
AUSTRALIA & NEW ZEALAND BANKING GROUP	35 days	5% of total exposure
COMMONWEALTH BANK OF AUSTRALIA	35 days	5% of total exposure
NATIONAL AUSTRALIA BANK	35 days	5% of total exposure
WESTPAC BANKING CORPORATION	35 days	5% of total exposure
BANK OF MONTREAL	35 days	5% of total exposure
BANK OF NOVA SCOTIA	35 days	5% of total exposure
CANADIAN IMPERIAL BANK OF COMMERCE	35 days	5% of total exposure
NATIONAL BANK OF CANADA	35 days	5% of total exposure
ROYAL BANK OF CANADA	35 days	5% of total exposure
TORONTO DOMINION BANK	35 days	5% of total exposure
NORDEA BANK	35 days	5% of total exposure
OP CORPORATE BANK	35 days	5% of total exposure
BAYERISCHE LANDESBANK	35 days	5% of total exposure
DZ BANK	35 days	5% of total exposure
LANDESBANK BADEN-WUERTTEMBERG	35 days	5% of total exposure
LANDESBANK HESSEN-THURINGEN	35 days	5% of total exposure
COOPERATIEVE RABOBANK	35 days	5% of total exposure
DBS BANK	35 days	5% of total exposure
OVERSEA-CHINESE BANKING CORPORATION	35 days	5% of total exposure
UNITED OVERSEAS BANK	35 days	5% of total exposure
SVENSKA HANDELSBANKEN	35 days	5% of total exposure
NORTHERN TRUST	35 days	5% of total exposure

SOUTH EAST WALES CORPORATE JOINT COMMITTEE

TREASURY MANAGEMENT POLICY STATEMENT

(aligned with CIPFA TM Code 2021)

1. INTRODUCTION AND BACKGROUND

1.1 The South East Wales Corporate Joint Committee adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the CJC 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 CJC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
- Investment management practices (IMPs) for investments that are not for treasury management purposes.

1.3 The CJC will receive reports on its treasury and investment 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.

1.4 The CJC delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Governance and Audit Sub Committee and for the execution and administration of treasury management decisions to the Strategic Director - Resources, who will act in accordance with the organisation's policy statement and TMPs, IMPs and CIPFA's Standard of Professional Practice on treasury management.

1.5 The CJC nominates the Governance and Audit Sub Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The CJC defines its treasury management activities as the management of the CJC'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.

2.2 The CJC 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.

2.3 The CJC 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.

2.4 The CJC's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source of borrowing and the type of borrowing should allow the CJC transparency and control over its debt.

The CJC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the CJC's long-term plans change is a secondary objective.

2.5 The CJC's priority in relation to its treasury investments is the security of capital and liquidity (or accessibility) of these investments.

The CJC's objective when investing treasury monies is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the CJC will aim to achieve, where appropriate, a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.

SOUTH EAST WALES CORPORATE JOINT COMMITTEE

TREASURY MANAGEMENT PRACTICES

PRINCIPLES AND SCHEDULES

Introduction:

The CIPFA Code of Practice on Treasury Management in the Public Services (the TM Code) was last revised in December 2021. The TM Code requires the South East Wales Corporate Joint Committee (CJC) to create and maintain, as the cornerstones for effective treasury and investment 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 – i.e. this document) setting out the manner in which the CJC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

This TMP document also sets out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management.

To support the CJC with it treasury management activities, the 2024/25 Accountancy Service Level Agreement (SLA) with RCT has been updated to include support with these arrangements. The CJC has agreed that its surplus cash balances will be 'pooled' with RCT's cash balances and invested in accordance with RCT's approved Treasury Management Strategy Statement, which compliments the CJC's own strategy. Details of the arrangements (along with roles and responsibilities) are set out in the SLA.

CJC's Schedules outlined below will take priority, and pooled funds will be subject to RCT Treasury Practices. Whilst it is unlikely there will be a conflict in TMSS & Strategy, monies held by CJC will be subject to the below Principles and Schedules. Monies pooled with RCT will be subject to their own Principles and Schedules.

Definitions

Treasury Management is defined by CIPFA as

> **The management of the CJC'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.**

'Investments' covers all the financial assets of the CJC, as well as other non-financial assets which the CJC holds primarily or partially to generate a profit, including but not limited to commercial property. Investments will be categorised in accordance with the primary purpose of the investment.

- Treasury management investments are those investments that arise from the CJC's cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.
- Service investments are those held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. They may or may not involve financial returns.
- Commercial investments are those held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

The Code identifies three key principles:

(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

(2) Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these 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.

(3) They should acknowledge that the pursuit for 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.

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) The CJC will create and maintain, as the cornerstones for effective treasury management

a. **A treasury management policy statement**, stating the policies, objectives and approach to risk management of its treasury management activities

b. 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 Section 6 and 7 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of the CJC. Such amendments will not result in material deviation from the Code's key principles.

(2) The CJC will receive reports on its treasury and investment 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.

(3) The CJC delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Governance and Audit Sub Committee, and for the execution and administration of treasury management decisions to the Strategic Director - Resources who will act in accordance with the organisation's policy statement and TMPs.

(4) The CJC nominates the Governance and Audit Sub Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies

The Treasury Management Practices (TMPs) comprise:

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 Anti Money laundering

TMP10 Training and qualifications

TMP11 Use of external service providers

TMP12 Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the CJC's treasury functions.

TMP1: RISK MANAGEMENT

The CJC 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 Strategic Director - Resources 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 as schedules below.

[1] Credit and counterparty risk

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the CJC's capital or current (revenue) resources.

Principle

The CJC will ensure 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*.

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.

The CJC's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. The CCR Responsible Investing Policy sets out to determine if a project, business or industry should be considered for investment based upon a set of benchmark criteria. The policy is based on 'negative screening' and is used to protect reputation, avoid

conflict with core objectives. It sets out a policy position to avoid investing in projects or businesses that do not meet CJC's social, environmental or ethical criteria. The policy has been developed to allow a responsible investment approach, and in line with its strategy of enhancing economic wellbeing while minimising any negative effect on its investment returns – both financial and wider economic outcomes. These principles will be extended to treasury investment decisions and will be aligned to CCR's Public Sector Equality Duty and future policies, such as the Biodiversity Compliance Plan.

Schedule

Criteria to be used for creating/managing approved counterparty lists/limits	The Strategic Director -Resources is responsible for setting prudent criteria and the CJC's treasury advisors will also provide guidance and assistance in setting the criteria. The criteria will be agreed by the Corporate Joint Committee (CJC). The current criteria is contained in the Treasury Management Strategy Statement (TMSS). The CJC's treasury management advisors will advise on credit policy and creditworthiness related issues. The CJC will maintain a counterparty list based on its credit criteria (determined at least annually) and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from the main ratings agencies as listed below and other alternative assessments of credit strength (for example, statements of potential government support where applicable, resolution mechanisms for failing financial institutions, CDS information, the composition of an institution's balance sheet liabilities). Investment limits are set by reference to the lowest long-term rating from the agencies [currently A-] and other relevant factors, including external advice. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account including information on corporate developments and market sentiment towards investment counterparties. Higher time 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.
Approved methodology for changing limits and adding/removing counterparties	The Strategic Director - Resources has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above. Where an entity's credit rating is downgraded so that it fails to meet the minimum criteria, then - No new investments will be made, - Any existing investments that can be recalled or sold at no cost will be, and - Full consideration will be given to the recall or sale of other existing investments with the affected counterparty

	Where a credit rating is placed on review for possible downgrade (also termed 'rating watch negative' or 'credit 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 outcome of the review is announced. This policy will not apply for 'negative outlooks' which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.
Details of credit rating agencies' services and their application Limitations of credit ratings and other information on security of investments	The CJC considers the ratings of the main ratings agencies [Fitch, Moody's S&P] when making investment decisions. Credit rating agency information is just one of a range of measures used to assess the creditworthiness of institutions. The CJC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including: - bail-in risk metrics - credit default swap prices, - financial statements, - information on potential government support / bail-in impact - reports in the quality financial press and analysis and advice from the CJC's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.
Description of the general approach to collecting and using information other than credit ratings for counterparty risk assessment	The CJC's Treasury Advisor, Arlingclose, provides timely information on counterparties in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as share price information. Arlingclose 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. In addition, the Strategic Director - Resources will keep themselves informed on information on counterparties.
Full individual listings of counterparties and counterparty limits	An up-to-date individual listing of banking* counterparties based on the criteria is maintained and included in the CJC's TMSS. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the Operations Manual. *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, whether the security is secured or unsecured, and due diligence on the counterparty's creditworthiness will determine its selection for investment. RCT's TM Strategy primarily provides for lending with the Debt Management Office DMADF (Debt Management Account Deposit Facility) and Other Government backed Public Sector Bodies.

Country, sector and group listings of counterparties and the overall limits applied to each, where appropriate	Monetary limits for any one organisation (other than the UK government) are set with reference to revenue reserves available to cover investment losses in order to minimise the impact on reserves in the case of a single default. The level of revenue reserves, and therefore the monetary limit, will be reviewed at least annually. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on - foreign countries, i.e. deposits with and CDs/bonds issued by non-UK organisations - total amounts invested with one fund management company, - investments in brokers' nominee accounts. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.
Responsible Investment / ESG	The CJC aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. **ESG policy**: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the CJC's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. The CJC is committed to ensuring that it makes investment decisions responsibly and with integrity. The Responsible Investing Policy sets out to determine if a project, business or industry should be considered for investment based upon a set of benchmark criteria. The policy is based on 'negative screening' and is used to protect reputation, avoid conflict with core objectives. It sets out a policy position to avoid investing in projects or businesses that do not meet CJC's social, environmental or ethical criteria. The policy has been developed to allow a responsible investment approach, and in line with its strategy of enhancing economic wellbeing while minimising any negative effect on its investment returns – both financial and wider economic outcomes. These principles will be extended to treasury investment decisions (please see appendix D) and will be aligned to CCR's Public Sector Equality Duty and future policies, such as the Biodiversity Compliance Plan.

[2] Liquidity risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the CJC's business/service objectives.

Principle

The CJC will ensure it has adequate though not excessive cash resources, borrowing arrangements and 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.

The CJC will not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so and will only do so for the current capital programme, to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

Schedule

Details of cash flow and cash balances	The CJC will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a rolling 12-month cash flow forecast to determine the maximum period for which funds may be prudently committed. The forecast is compiled on a prudent basis to minimise the risk of the CJC being forced to borrow on unfavourable terms to meet its financial commitments.
Amounts of approved minimum cash balances and short-term investments	A sufficient balance to deal with day-to-day cash flow fluctuations is maintained by investing money overnight with the CJC's bankers. The CJC also uses various Call Accounts and Money Market Funds to manage its liquidity requirements. These are named on the CJC's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the CJC's investment strategy.
Details of short-term borrowing facilities	Temporary borrowing up to 1 year through the money market is available should there be a cash flow deficit at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the **Authorised Borrowing Limit** which is determined and approved before the start of each financial year. The Authorised Limit for the current financial year is in the TMSS.
Details of insurance/guarantee facilities	The CJC is insured against Officer Fraud by its Fidelity Guarantee (called the Crime Policy to a Limit of £1M for all CJC Officers and a Limit of £2M for those officers involved in Treasury Management activities).
Details of other contingency arrangements	Contingency Arrangements are made when an event prevents normal workflows. Such arrangements are for key staff to be authorised to be able to work from home or another suitable location.

[3] Interest Rate Risk Management:

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the CJC's finances, against which the CJC has failed to protect itself adequately.

Principle

The CJC will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs or revenues in accordance with 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.

The CJC 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.

Schedule

Proportions of fixed/variable rate debt	Borrowing/investments may be at a fixed or variable interest rate. In setting its forward Treasury Strategy on an annual basis, the CJC will determine the necessary degree of certainty required for its capital plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market condition. A fall in interest rates is beneficial for variable rate debt and short-term borrowing which needs to be refinanced, but not for variable rate investments. Conversely, a rise in interest rates is beneficial for short-term investments which can be reinvested at higher rates but will be a cost for variable rate borrowing or short-term borrowing which needs to be refinanced. The CJC sets an Interest Rate Risk indicator as part of its Treasury Management Strategy to control exposure to interest rate risk. This is set as (a) Upper limit on one-year revenue impact of a 1% rise in interest rates and (b) Upper limit on one-year revenue impact of a 1% fall in interest rates. Interest rates can rise and fall sharply and can also rise/fall by more than 1% in a 12-month period. The Interest Rate Risk indicator is not mandatory, but CIPFA encourages its use.

Guidelines for managing changes to interest rate levels	The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest. Interest rate forecasts are provided by the CJC's advisors and are closely monitored by the Strategic Director - Resources. Variations from original estimates and their impact on the CJC's debt and investments are notified to the Governance and Audit Sub Committee as necessary. Alternatively, the CJC may consider **forward starting loans** for its non-PWLB loans portfolio where the interest rate is agreed and fixed in advance but the cash is received at a later date. This would enable certainty of cost to be achieved without suffering a 'cost of carry' in the intervening period. There is, however, a risk in that interest rates may fall in the intervening period but the CJC is committed to the pre-agreed drawdown of the loan on the relevant date at the higher rate. For its investments, the CJC may consider dealing from forward periods dependent upon market conditions. The CJC's counterparty term limits will apply and will include the forward period of the investment. There are, however, risks (i) that interest rates may rise in the intervening period and/or (ii) the creditworthiness of the borrower has deteriorated during the forward period, but the CJC is committed to the pre-agreed lending of monies to the counterparty on the relevant date.
Policies concerning the use of financial derivatives for interest rate risk management	The general power of competence in section 24 of the Local Government and Elections (Wales) Act 2021 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CJC will only use the following standalone financial derivatives *such as swaps, forwards, futures and options* where the CJC has determined these can be clearly demonstrated to reduce the overall level of the financial risks that the CJC is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. The policy on the use of derivatives can be found in the TMSS. The use of derivatives is outlined in **TMP4** ***Approved instruments, methods and techniques*** and the CJC will seek proper advice before entering into arrangements for such products and will ensure it has the necessary knowledge and understanding of them before doing so. Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

[4] Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the CJC's finances against which the CJC has failed to protect itself adequately.

Principle

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

Schedule

Details of approved exchange rate exposure limits for cash investments/debt	The CJC does not, on a day-to-day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity. If the CJC has a contractual obligation to make a payment in a currency other than sterling, then forward foreign exchange transactions will be considered and professional advice sought. At the present time statute prevents the CJC borrowing in currencies other than sterling.
Approved criteria for managing changes in exchange rate levels	For the CJC's exchange rate risk management, an adaptable and comprehensive approach is vital. This involves identifying and assessing exposure to exchange rate fluctuations, setting flexible but defined risk tolerance levels, and employing a mix of hedging strategies. Regular monitoring, coupled with dynamic policy reviews and adjustments, ensures responsiveness to market changes. Integral to this approach is the commitment to compliance, ethical standards, and effective stakeholder communication, ensuring transparency and alignment with the broader financial objectives of the CJC.
Policies concerning the use of financial derivatives for exchange rate risk management	The CJC will only consider the use of financial derivates for exchange risk management if it can be clearly demonstrated to reduce the overall level of the financial risks that the CJC is exposed to.

[5] Inflation Risk Management

Inflation risk, also called purchasing power risk, is the chance that the cash flows from won't be worth as much in the future because of changes in purchasing power due to inflation.

Principle

The CJC 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 CJC's inflation exposures.

Investments over one year	Where balances are expected to be invested for more than one year, the CJC will aim to achieve a total return that is equal or higher than the prevailing rate of inflation (within reason and without taking undue risk), in order to maintain the spending power of the sum invested.

Contractual obligations linked to inflation	The CJC will identify all contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.

[6] Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the CJC for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

Principle

The CJC will ensure that its borrowing and other long-term liabilities 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 CJC 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 over reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule

Projected capital financing requirements	A minimum of three-year projections are in place for capital expenditure and its financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded, revenue resources or reserves. Funding will be from internal or external borrowing, as decided. As required by the Prudential Code, the CJC will undertake Options Appraisal to evaluate the best capital expenditure financing route.

Debt/other capital financing maturity profiling, policies and practices Liability/Asset Benchmark	The CJC will maintain through its treasury system, reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancings. To assist with long-term borrowing decision making the CJC creates, with advice and assistance from its treasury advisor, a '**Liability/Asset Benchmark' [LB]** which is the lowest risk level of borrowing. The LB is an important tool which takes into account maturing loans and represents an estimate of the cumulative amount of external borrowing the CJC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow. The Liability/Asset Benchmark is - is represented as a graph in the annual treasury management strategy. - updated regularly through the year by the CJC with developments and/or timing changes in the capital programme as well as changes to balance sheet resources. - is reported on quarterly alongside the CJC's capital monitoring reports. Based on the output of the Liability Benchmark and the CJC's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the CIPFA Codes and will comply with the CJC's Prudential Indicators and the Annual Treasury Management Strategy. Avoiding a concentration of loan maturities in a single financial year or over any 2-3 year period will reduce the risk of having to refinance at a time when interest rates are unfavourable to the CJC.
Debt Maturity Profile	The CJC will maintain in its borrowing records a debt maturity profile showing the amount of loans maturing in each financial year. Avoiding a concentration of loan maturities in a single financial year and over any 2-3 year period will reduce the risk of having to refinance maturing loans at a time when interest rates are high and unfavourable to the CJC.
Borrowing from commercial lenders	Where lenders to the CJC are commercial bodies, the CJC will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.

[7] Legal and Regulatory Risk Management

The risk that the CJC itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the CJC suffers losses accordingly.

Principle

The CJC 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] *Counterparty credit risk management*, it will ensure that there is evidence of counterparties' powers, CJC and compliance in

respect of the transactions they may effect with the CJC, particularly with regard to duty of care and fees charged.

The CJC 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 the risk of these impacting adversely on the organisation.

Schedule

References to relevant statute, regulations, statutory guidance and recognised codes of practice	The treasury management activities of the CJC shall comply fully with statute and regulations and have regard to statutory guidance and recognised Codes of Practice. These are: ▪ Local Government Act 2003 ▪ Local Government and Elections (Wales) Act 2021 (in relation to general power of competence) ▪ The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments ▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 and subsequent amendments ▪ Welsh Government Statutory Guidance on Local Government Investments (2019 Edition) ▪ CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021 Edition) and Guidance Notes for Local Authorities ▪ CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition) and Guidance Notes for Practitioners ▪ Relevant CIPFA Bulletins ▪ Bank of England Money Markets Code (2021 Edition) and Explanatory Notes
PWLB Borrowing	HM Treasury have also issued guidance regarding PWLB lending which will apply to any loan arranged from 26th November 2020. The guidance is updated from time to time and can be found on https://www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/
References to relevant parts of the CJC's constitution	Details of the CJCs: • Contract Procedure Rules; • Financial Procedure Rules; • Scheme of Delegation Are attached below. 4E. Contract Procedure Rules.pdf 4D. Financial Procedure Rules.pdf Part 3 - Allocation of Responsibilities.pdf

Procedures for evidencing the organisation's powers/authorities to counterparties	To avoid the potential for illegal or irregular dealings in its treasury management activities the CJC will maintain and make available up-to-date records of its powers and of the regulatory regime under which the TM activities are undertaken. The CJC's Financial Regulations contain evidence of the power/CJC to act as required by section 151 of the Local Government Act 1972, under the general direction of the CJC. The CJC will confirm, if requested to do so by counterparties, the powers and authorities under which the CJC effects transactions with them. Where required, the CJC will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.
Markets in Financial Instruments Directive II (MiFID II)	The CJC has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the CJC's treasury management activities, the Strategic Director - Resources believes this to be the most appropriate status.
Reporting and audit trail	To demonstrate openness and accountability and to minimise the risk of being challenged over whether the CJC pursued due processes, the CJC will maintain an audit trail of treasury management decisions and transactions. This not only dovetails with transparency on the CJC's decision-making process and assessment of the effectiveness of TM decisions, it also helps if it becomes necessary to demonstrate the legality or probity of transactions. See **TMP 6 – Reporting Requirements and Management Arrangement Information Arrangements** for more detail.
Statement on the organisation's political risks and management of the same	Political risk is managed by: • adherence to Corporate Governance (TMP12 *Corporate Governance*) • the roles of the Governance and Audit Sub Committee.

[8] **Operational risk, including fraud, error and corruption**

The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of fraud, error, corruption or other eventualities in treasury management dealings.

Principle

The CJC will ensure that it has identified the circumstances that may expose it to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, it will employ suitable systems and procedures and will maintain effective contingency management arrangements to these ends.

Schedule

Details of systems and procedures to be followed, including Internet services	Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in **TMP5** ***Organisation, clarity and segregation of responsibilities, and dealing arrangements***. 1. Electronic Banking and Dealing (a) The CJC's online banking service is provided by Barclays is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank's online system are as follows: RCT Officers & Processes: (1) Financials systems administration & Treasury Management teams CJC Officers: (1) Head of Finance Risk & Assurance, (2) Interim Finance Business Partner, (3) Accountant, (4) Financial Accountant, (5) 2 x Accountancy Assistant (View Only) These also are reviewed at least 6 monthly or as necessary. (b) *Please include other counterparties with whom deals are concluded electronically. Procedures for on-line dealing with them should be documented in the Operations Manual.* Initially, this will be linked to RCT Pooling arrangements i.e. (1) Debt Management Office and (2) Other Government backed public sector bodies. Full procedure notes covering the day to day operation of the online banking system and the treasury management system are documented and included in the RCT's Procedure Notes, which the CJC will rely upon. 2. Standard Settlement Instructions (SSIs): a list is maintained of named officers from the CJC to transact for loans and investments. Delivered by RCT in accordance with SLA • Brokers and counterparties with whom the CJC deals direct. • PWLB and Debt Management Account Deposit Facility (DMADF). • Money Market Funds / MMF portal clearing. • Externally managed pooled funds. 3. <u>Payment Authorisation</u>: • Payments can only be authorised by an agreed signatory(ies) of the CJC, the list of signatories having previously been agreed with the CJC's bank. • Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts.

	• Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements. • Payment requests to RCT will be made in accordance with the advance notice arrangements set out in the SLA.
Verification	Loans and investments will be maintained by RCT on spreadsheets in-line with their current arrangements. **Facilitated via the SLA with RCT, transactions** will be cross-checked against broker notes /counterparty confirmations / contract notes / PWLB loan confirmations by verifying dates, amounts, interest rates, maturity, interest payment dates, etc. When receiving requests for **change of payment details**, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before amending payment details. CJC will undertake independent checks will be documented and evidenced before authorising RCT to make payments.
Substantiation	1. The Treasury Management balances pooled with RCT are reconciled with financial ledger codes at the end of each month and at the financial year end 2. Working papers are retained for audit inspection 3. The bank reconciliation is carried out monthly from the bank statement to the financial ledger.
Internal Audit	Internal Audit carry out reviews of the treasury management function including probity testing in line with the agreed risk based internal audit plan. See TMP7 *Budgeting, accounting and audit arrangements*.
Emergency and contingency planning arrangements	1. All treasury systems are retained on RCT's network. Daily back-ups are taken and maintained, and network back-ups can be used by the RCT IT department to restore files, if necessary. 2. RCT maintain manual records of all treasury management transactions as an additional back-up. 3. Electronic Banking System Failure: RCT have documented manual procedures with the bank to both obtain the balances and transmit monies. In the instance that CJC is unable to access the balances we would liaise with RCT colleagues to obtain this information. Please see above. 4. In addition, RCT has its own Contingency Arrangements in the event of failure (these can be provided if required).
Insurance cover details	The CJC has a crime policy that refers to fraud or misappropriation of funds by employees. This provides cover of £1M for all CJC Officers and a Limit of £2M for those officers involved in Treasury Management activities. Details of the provider and cover are held by the CJC Finance department. In addition RCT has the following Insurance arrangements in place: "Local Authorities are required by law to have Fidelity Guarantee Insurance, this insures the council against Fraud and Corruption of employees. We have an authority wide limit of £2M and certain officers who are able to process large transactions have a limit of £5M"

[9] Price Risk Management: The risk that, through adverse market fluctuations in the value of the principal sums the CJC borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Principle

This CJC 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 sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate	Investment instruments used by the external fund managers (for example CDs, bonds or funds investing in equities/bonds/property etc) are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective. The CJC may consider investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors. The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the CJC's annual investment strategy. The CJC also sets monetary limits for the Price Risk prudential indicator as part of its TM strategy. The purpose of this indicator is to control the CJC's exposure to the risk of incurring losses by seeking early repayment of its investments.
Accounting for unrealised gains/losses	A statutory override is in place until March 2023 for fair value gains and losses on most pooled investment funds not to be taken to revenue (capital finance regulation 24K). The regulation requires fair value gains and losses on pooled investment funds to be taken to an unusable reserve, the Pooled Investment Fund Adjustment Account, except those: • held on behalf of a pension fund or trust fund, • classed as capital expenditure, • that are neither UCITS funds nor approved by HM Treasury for use by local authorities, • that have been elected to fair value through other comprehensive invoice (FVOCI), or • that have been redeemed, sold or otherwise disposed of. Where pooled funds are classed as capital expenditure, any fair value gains and losses charged to Finance I&E will be reversed out to the Capital Adjustment Account via the MiRS.

TMP2: PERFORMANCE MEASUREMENT

Principle

The CJC 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 CJC's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or 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 below. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

Schedule

Policy concerning methods for testing value for money	Best value reviews will include the production of plans to review the way services are provided by: ▪ Challenging ▪ Comparing performance ▪ Consulting with other users and interested parties ▪ Applying competition principles In order to pursue continuous improvement in the way the CJC's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.
Policy concerning methods for performance measurement	• Performance measurement at the CJC is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the CJC's Prudential Indicators and to enhance accountability. • Prudential Indicators are specific to the CJC and not intended as a comparator between authorities. • The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the CJC's agreed strategy (i.e. the CJC will avoid hindsight analysis). Any comparison of the CJC's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to: (i) allow the CJC the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed, and (ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. In drawing any conclusions, the CJC will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the effective management of risk.

Methodology to be applied for evaluating the impact of treasury management decisions	Monitoring of the outcome of treasury management activity against Prudential Indicators (PIs) approved by the CJC will be carried out as part of the budget monitoring reports to Governance and Audit Sub Committee on a quarterly basis. The semi-annual and year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments. *(amend as applicable)* As the CJC's treasury activities generally involves both borrowing and lending at various times, will measure the performance of the borrowing and investment portfolios on an individual as well as net treasury basis. [If a net borrower, this will be borrowing costs net of treasury investment income, or if the CJC is a net investor, this will be investment returns net of any borrowing costs.] *List the metrics used: e.g. average rate, average maturity, credit risk, volatility, etc* The CJC participates in the Treasury Management Advisor's quarterly investment benchmarking and from time to time, other benchmarking such as for Balance Sheet and Debt.
Methods to be employed for measuring the performance of the CJC's treasury management activities	Treasury management activity is reviewed Bi-Annually against strategy and prevailing economic and market conditions through the Treasury Management report to management. Examples of performance measures: a) CFR Funding Ratio (gross borrowing as a % of the Loans CFR) b) Gross and Net Borrowing; Leverage Ratio (gross borrowing as a proportion of net borrowing) c) Average rate on gross borrowing vs weighted average maturity d) Leveraged Rate on Net Borrowing vs Leverage Ratio e) The effect of any debt restructuring on the debt portfolio f) An analysis of any risks inherent within the debt portfolio (e.g. £Xm of loans, i.e. % of total portfolio exposed to variable rates and/or borrowed on a temporary basis which needs regular refinancing; LOBOs in their call period) g) Average rate on gross investments, average life, credit and maturity profile h) The effect of new instruments / techniques on the above (this is to help make an informed judgement about the merits of their use) i) The rate of return on investments against their credit quality j) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements and volatility in price of CDs, gilts/bonds, pooled funds) k) Whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy l) Daily bank balances: any major deviations from the target bank balances

Benchmarks and calculation methodology with regard to risk and return: debt management and investment	All benchmarking should consider risk as well as return/cost. **Treasury Management Costs** **Investment returns** are compared to the 7-day *Sterling Overnight Rate (Sonia Rate)*. ▪ Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month. ▪ Externally Managed Investment Returns – income return and capital growth/loss ▪ Credit risk and credit profile ▪ Volatility of funds operating on a variable net asset value (VNAV) basis **Debt Management (when applicable to CJC)** ▪ CFR Funding Ratio (gross borrowing as a % of the Loans CFR) ▪ Gross and Net Borrowing; Leverage Ratio (gross borrowing as a proportion of net borrowing) ▪ Average rate on gross borrowing vs weighted average maturity ▪ Leveraged Rate on Net Borrowing vs Leverage Ratio ▪ Percentage of debt maturing in (i) 12 months and (ii) 12-24 months which will need refinancing ▪ Percentage of PWLB and market debt (beginning and end of period) ▪ Percentage of fixed and variable rate debt (beginning and end of period) ▪ Percentage of temporary loans (under 1 year) which will need refinancing on maturity
Policy concerning methods for testing value for money in treasury management	The treasury management function will be the subject of ongoing analysis of the value for money it adds in support of the CJC's stated corporate and service objectives. When tendering for treasury-related or banking services, the CJC adheres to its Financial Regulations. These require that: *a)* please give brief details*, e.g. for placing a contract with a value below £15,000 at least 2 quotes and service delivery proposals are generally obtained.* b) when placing a contract with a value in excess of £75,000, a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken c) If necessary, the CJC will also consult with other users of similar services as well as with interested parties d) The CJC will also evaluate alternative methods of the availability of fiscal, grant or subsidy initiatives, and service delivery

TMP3: DECISION MAKING AND ANALYSIS

Principle

The CJC 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, e.g. 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 below.

Schedule

Capital expenditure and investment plans	The Prudential Code requires the CJC to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the CJC. Therefore, effective financial planning, option appraisal and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt. The Prudential Code encourages determining spending priorities and affordability criteria. The fundamental objective in the consideration of the affordability of the CJC's capital plans is to ensure that the total capital investment of the CJC remains within sustainable limits. In considering the affordability of the capital plans, the CJC is required to consider all of the resources available to it or estimated for the future, together with the totality of the capital plans, income and expenditure forecasts. *If the CJC has or is considering commercial investments:* The risks of the CJC's commercial investments should be proportionate to the CJC's overall capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the CJC. The CJC expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income.
Major treasury decisions	As a public service organisation, the CJC will demonstrate openness and accountability in treasury management activities and will create and maintain an audit trail of treasury management decisions which comprise: a) setting and any in-year changes to changes to Prudential Indicator(s) b) options appraisal to determine a funding decision c) raising new short-term or long-term loans/ other long-term source of finance d) prematurely restructuring/redeeming an existing loan(s) e) short- and long-term (i.e. in excess of 1 year) investments f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate) g) leasing h) use of derivatives i) change in banking arrangements j) appointing/replacing a treasury advisor k) appointing/replacing a fund manager l) *any other determined by the CJC*

Borrowing purpose	The 2021 Prudential Code is clear that in order to comply with this Code, an CJC must not borrow to invest primarily for financial return. It is not prudent for the CJC to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the CJC's functions and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. The Statutory Guidance of Local CJC Investments in Wales 2019 considers that borrowing in advance of need purely to profit from the investment of the extra sums borrowed is against the principles in the statutory framework. If the CJC chooses not to comply with this principle in order to invest in property or other financial assets for commercial return, then the CJC must make additional disclosures about the reasons for doing so.
Process	**Liability benchmark [LB]:** The Liability Benchmark is a long-term measure of the underlying need to borrow for <u>all</u> purposes over the long term and is based on its current capital programme and other forecast cash flow movements. It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing (or long term investments, if the CJC is a net investor) are more appropriate. The LB an important borrowing risk management measure and will be inclusive in the decision-making process so as to prevent over-borrowing; it will also therefore form part of the CJC's audit trail justifying long-term borrowing decisions. To determine future years' debt requirement or, conversely, monies available for longer-term investment, the CJC will estimate and measure the LB for [x*] years. It is presented as a chart showing: • the CJC's current and projected Loans CFR and MRP • existing loan debt (does not include forecast debt), • net loans requirement, taking into account balance sheet resources which are the CJC's usable reserves and working capital surplus • liability benchmark, which also takes into account the CJC's required liquidity allowance. The LB is analysed as part of the annual treasury management strategy. * *as a minimum the 2021 TM Code requires authorities to estimate and measure the LB for the forthcoming financial year and the following two financial years. CIPFA recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of the CJC.* *Chapter 3 of the 2021 TM Code Guidance Notes has detail on the LB.* The years where actual loans are less than the benchmark indicate a future borrowing requirement; years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment. Our treasury advisor Arlingclose provides the CJC with an online live tool (using Microsoft Teams) to assist with the preparation and regular updating of this important treasury management indicator.

Delegated powers for treasury management	The Strategic Director – Resources has delegated powers to carry out the CJC's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the CJC.
Issues to be addressed	In exercising these powers, the Strategic Director – Resources and those to whom treasury activities have been delegated will: • be clear about the nature and extent of any associated risks to which the CJC may become exposed and put in place effective mechanisms for risk management and mitigation • be certain about the legality of the decision reached and that the necessary CJC to proceed has been obtained • ensure that relevant due diligence has taken place • be satisfied that the documentation is appropriate to deliver the CJC's objectives, protect the CJC's interests, and to maintain an effective audit trail • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive • follow best practice in implementing the treasury transaction **Borrowing objective**: The CJC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the CJC's long-term plans change is a secondary objective. In exercising **borrowing and funding decisions**, the Strategic Director - Resources will: • evaluate economic and market factors that may influence the manner and timing of any decision to fund • consider ongoing revenue liabilities created and the implications for the organisation's future plans and budgets • consider alternative forms of funding, including use of revenue resources, leasing and private partnerships • consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use • where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The CJC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. **Investment objective**: The CJC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. In exercising Investment decisions, the Strategic Director - Resources will: • determine that the investment is within the CJC's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set

	out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies • consider the risks to capital and returns and the implications for the CJC's future plans and budgets, including implications of any market-related changes to the value of the capital invested • consider whether invested monies can be used in lieu of externally borrowing • consider the optimum period, in the light of cash flow availability and prevailing market conditions • consider alternative investment products and techniques available, if appropriate.
Processes to be pursued	The processes to be followed will be in keeping with TMP4 *Approved instruments, methods and techniques*.
Records to be kept	The CJC will maintain a record of all treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly. Records and working papers will be maintained by the CJC electronically.

TMP4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Principle

The CJC 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 the CJC intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The CJC 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.

The CJC has reviewed its classification with financial institutions under MiFID II and has set out below those organisations with which it is registered as a as a professional client and those with which it has an application outstanding to register as a professional client.

Schedule

Approved treasury management activities	The CJC is permitted to undertake the following activities: ▪ Managing cashflow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Investing including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the CJC's capital financing and surplus funds activities The above list is not definitive and the CJC would, from time to time, consider new financial instruments and treasury management techniques. However, the CJC will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.
Sources of borrowing

	• hire purchase • Private Finance Initiative • sale and leaseback The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

Approved treasury investment instruments	The CJC will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity and then yield (in that order) of its invested monies in keeping with Welsh Government Investment Guidance issued in 2019. The Annual Investment Strategy should be approved by CJC The CJC will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager(s) including the maximum exposure for each category of non-specified investments. Where applicable, the CJC's credit criteria will also apply. ▪ Deposits with the UK government, the Debt Management Account Deposit Facility (DMADF), ▪ Loans to other UK local authorities ▪ Banks and building societies unsecured short-term (call and notice accounts, deposits, certificates of deposit) ▪ Investments in Money Market Funds ▪ Treasury Bills (short-dated UK government debt) ▪ UK government bonds (Gilts) ▪ Sterling denominated bonds by non-UK sovereign governments ▪ Bonds issued by multilateral development banks ▪ Covered bonds (i.e. those with underlying collateral) ▪ Loans, bonds and commercial paper issued by corporates other than banks (secured and unsecured) ▪ Reverse Repurchase Agreements ('reverse repos') ▪ Investments with Registered Providers of Social Housing (i.e. housing associations) ▪ Pooled funds meeting the definition of Collective Investment Schemes in SI 2004 No 3239 (W.319) and subsequent amendments and which invest in cash instruments /bonds / equities / property – (bond, equity, property and multi asset funds will be long-dated strategic investments) ▪ Real Estate Investment Trusts (REITs) Investments secured on the borrower's assets limit potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements (reverse repos) with banks and building societies are exempt from bail-in.

	The CJC will ensure it maintains the skills and experience necessary to evaluate the benefits and control the risks associated with the above investment instruments.
Use of Derivatives	**Financial derivatives:** *(Councils)* Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the Local Government and Election (Wales) Act 2021 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CJC will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the CJC is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in this TMP document will count against the counterparty credit limit and the relevant foreign country limit. In line with the CIPFA Code, the CJC will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications. Additionally, the use of derivatives is restricted to only those officers who have completed the appropriate training for their use. **Embedded derivatives:** Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.
MiFID II professional client status	The CJC has not opted up, thus retaining **Retail** status acknowledging that it will have a more limited range of financial investment instruments but also receive greater regulatory protection of those investments. Designation under MiFID II will be endorsed by the treasury strategy and reviewed frequently to ensure the designation remains appropriate.

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

Principles

The CJC 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 the CJC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Strategic Director - Resources 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 *Strategic Director - Resources* will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. *Strategic Director - Resources* 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 below.

The *Strategic Director - Resources* 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 below.

The delegations to the *Strategic Director - Resources* in respect of treasury management are set out in the schedule below. The *Strategic Director - Resources* will fulfil all such responsibilities in accordance with the CJC's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

Schedule

For Primary Investment – RCT Pooling as above

For Secondary Investment – CJC Internally Held Cash

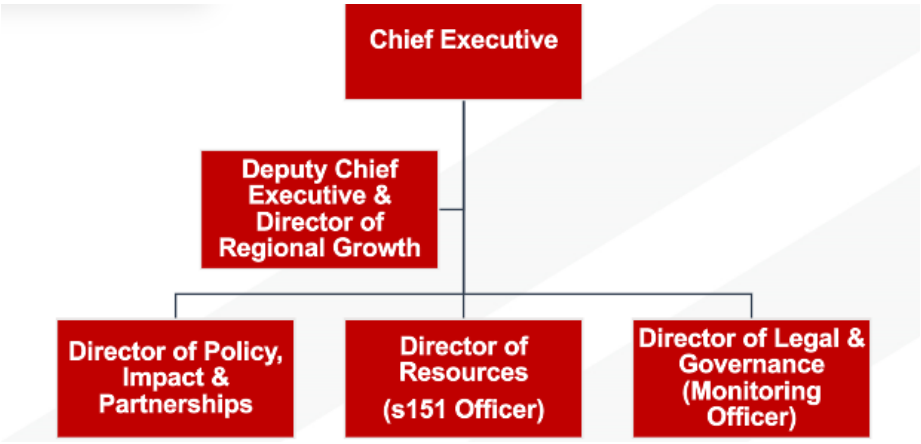
Level 1
Strategic Director – Resources (Interim Section 151 Officer)
Head of Finance Risk & Assurance (Deputy Section 151 Officer)

Level 2
Finance Business Partner – Management Accounting
Finance Business Partner – Financial Accounting
*Group Accountant or Accountant * TBC*

Level 3
Accountant - Financial Accounting
Accountancy Assistants x2

Limits to responsibilities / discretion at committee / executive levels	CJC: receiving and reviewing • Prudential Indicators (Capital Expenditure, Authorised Limit, Operational Boundary)

	• Treasury Management & Capital Strategy (if the Capital Strategy is approved by CJC, the TM Strategy may be approved by another Committee • Quarterly/semi-annual/annual treasury activity reports The CJC will provide:- • approval of amendments to adopted clauses, treasury management policy statement, Treasury management strategy (if Capital Strategy is approved by CJC) and treasury management practices • budget consideration and approval • receiving and reviewing external audit reports and acting on recommendations • approving the selection of external service providers and agreeing terms of appointment
Principles and practices concerning segregation of duties	The segregation of duties will be determined by Strategic Director - Resources Segregation of duties exists in that: • the officer(s) responsible for negotiating and closing treasury management deals is/are completely separate from the officer(s) with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations • the officer(s) responsible for negotiating and closing treasury management deals is separate from officer(s) authorising payments • all borrowing/investments decisions must be authorised by the Strategic Director – Resources. Additionally, the CJC receives bank statements on a frequent basis. These are posted independent of the treasury function in order to maintain an adequate separation of duties.
Statement of duties/ responsibilities of each treasury / relevant post	The Strategic Director – Resources/ *Head of Finance Risk & Assurance (Deputy Section 151 Officer)* • submitting budgets and budget variations • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy • submitting regular treasury management policy reports • receiving and reviewing management information reports • reviewing the performance of the treasury management function and promoting best value reviews • ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function • ensuring the adequacy of internal audit and liaising with external audit • recommending the appointment of external service providers • determining long-term capital financing and investment decisions • The Strategic Director - Resources has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments • The Strategic Director - Resources may delegate his/her power to borrow and invest to the Head of Finance, Risk & Assurance. *Finance Business Partner*

	• execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • monitoring performance on a day to day basis • submitting management information reports to the responsible officer • identifying and recommending opportunities for improved practices *Group Accountant*/ Accountancy Assistant • recording treasury management transactions, • reconciling treasury management transactions with the financial ledger • recording/reconciling counterparty documentation
Absence cover arrangements	Cover in the absence of the relevant treasury management officer is provided by: • *Finance Business Partner and Group Accountant* Cover is reviewed as necessary. Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.
Description of the relationships between the chief finance officer, the monitoring officer and the head of paid service.	 Head of Finance, Risk and Assurance reports directly into the s.151 Officer

Dealing

Authorised officers	Responsible officer for borrowing/investment decisions: Borrowing activity: Strategic Director – Resources Lending activity: Strategic Director – Resources Authorising payments for borrowing/lending: Strategic Director - Resources Transaction recording: Strategic Director – Resources
Dealing limits	Internally Managed Investments: • the maximum for any one investment deal (other than with UK Government) is £5 million (subject to the lending limits detailed in the CJC's Annual Investment Strategy.)

PWLB lending facility – terms and conditions	The Operational Circular which contains the PWLB's current terms and conditions for lending as well the guidance issued by HM Treasury (which will apply to any PWLB loan arranged from 26/11/2020 are available on https://www.dmo.gov.uk/responsibilities/local-authority-lending/lending-arrangements/ The current terms and application process are in Operational Circular 163, applicable to loans arranged from 21/10/21. a. Under current lending terms HM Treasury requires all major authorities wishing to access PWLB borrowing to have an up-to-date PWLB Lending Access form, submitted to DLUHC via the DELTA platform. The form captures a high-level version of an authority's borrowing and capital expenditure plans. b. Applications are completed using the PWLB's electronic template. It must be completed by an authorised dealer from the names previously notified to the DMO. In addition to loan details, the form includes qualifying questions to be submitted during the PWLB's operational hours (0930-1615). c. A Loan Conditional Confirmation letter is received. The loan application is subject to a review by HM Treasury. If no queries/objections are raised by trade date + 4, the loan advance is made on trade date + 5. Any changes to PWLB terms as documented in subsequent circulars will be communicated to all officers in the Finance Team.
PWLB authorised dealers	Currently no dealers authorised to transact with the PWLB are: A complete list of officers authorised to transact with the PWLB, and any amendment thereto, must be provided to the PWLB using the authorisation amendment form available on the website's Lending Arrangements page.
Dealing platforms / portals	iDealTrade
List of approved brokers	Brokers used by the CJC are specified in TMP11 *External service providers*
Policy on brokers' services	Current CJC has no appointed brokers. When necessary, CJC will appoint at least 2 brokers. It is the CJC's policy to utilise the services between at least *two* brokers. The CJC will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	*CJC do not record any telephone dealing.* *For the pooling arrangement, RCT do not record any telephone dealing.* Conversations with brokers are taped by the brokers.

Direct dealing practices	Direct dealing is carried out with institutions and with externally managed pooled funds identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the CJC will ensure that each counterparty / fund has been provided with the CJC's list of authorised dealers and the CJC's Standard Settlement Procedures. The template for the CJC's Standard Settlement Procedures is included in the Operational Schedule.
Inter-authority dealing	The CJC also deals with other local authorities to invest and borrow funds for treasury management purposes. In addition to transactions conducted through brokers, deals are conducted direct with other authorities and also via the iDealTrade execution-only dealing platform. A record of all deals, together with their specific terms, will be maintained by the CJC.
Deal Ticket proforma	Deals will be recorded as per the deal ticket proforma *(proforma maintained at operational level)*
Settlement transmission procedures	• settlements are made by CHAPS • all CHAPS payments relating to settlement transactions require authorisation by the Strategic Director - Resources • all CHAPS payments require two individuals (1) person completing form and (2) CJC authorised signatory • the details are transmitted by email to RCT (generic RCT Treasury Management email account) with the authority from signatory as set out above.
Documentation requirements	Documentation requirements are maintained by RCT. Record of CHAPS forms are maintained by the CJC. For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker. Investments • deal ticket with signature to agree the investment • confirmation from the broker • confirmation from the counterparty • Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator • CHAPS payment transmission document Loans: • deal ticket with signature to agree the loan • confirmation from the broker and market counterparty • confirmation from PWLB • CHAPS payment transmission document.

Arrangements concerning the management of counterparty lists	*Please state here how the CJC manages counterparty lists - example* • The *Strategic Director - Resources* has responsibility for updating the CJC's records with any credit developments, as provided by the CJC appointed Treasury Management Advisors. • The *Strategic Director - Resources* is tasked with checking that records have been correctly updated to reflect any credit developments.

TMP6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Principles

The CJC 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, CJC 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 CJC to which some treasury responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks.

The Governance & Audit Sub Committee will have responsibility for the scrutiny of treasury management policies and practices.

The CJC will report the treasury management indicators required by regulation as detailed in the TM Code's sector-specific guidance notes.

The present arrangements and the form of these reports are outlined below.

Schedule

<table>
<tr><td>Clauses to be adopted as part of the CJC's Standing Orders

Treasury Management Policy Statement</td><td>The recommended clauses to be adopted as part of the CJC's standing orders, financial regulations or other formal policy documents is in Section 5 of the 2021 Treasury Management Code.

The Treasury Management Policy Statement is a short document defines the policies and objectives of the CJC's treasury management activities.

The recommended text for adoption is provided by CIPFA in Section 6 of the 2021 Treasury Management Code.

The Treasury Management Policy Statement is adopted by CJC</td></tr>
<tr><td>Prudential Indicators</td><td>The CJC will cover the Prudential Indicators in its <u>annual</u> strategy documents determined before the beginning of each financial year:

<table><tr><td><u>Capital Strategy (incorporated within TMSS)</u>
• Capital expenditure
• Capital financing requirement (CFR)
• Authorised Limit and Operational boundary
• Gross debt and the CFR
• Financing costs to net revenue stream
• Net income from commercial and service investments to net revenue stream (note</td><td><u>Treasury Management Strategy</u>
• Liability benchmark (from 2023/24)
• Maturity structure of borrowing
• Long-term treasury management investments
• Interest rate exposures
• Credit risk *
• Price risk *</td></tr></table></td></tr>
</table>

	here that only direct costs such as property management can be netted off gross income, not related interest and MRP costs) |
	* Recommended but not mandatory indicator. The 2021 Prudential Code Guidance Notes cover indicators for Affordability and Prudence (pages 41-61). The 2021 Treasury Management Code Guidance Notes cover treasury indicators(pages 15-24). CIPFA's definitions are cross-referenced to the respective Codes. With effect from 2024/25, Prudential indicators will be reported to the CJC quarterly.
Capital Strategy	This document, approved by CJC annually before the start of each financial year, gives a high-level overview of (i) how capital expenditure, capital financing and treasury management activity contribute to the provision of services, (ii) management of the associated risk is managed and (iii) implications for future financial sustainability. The Prudential Code requires the approval of a Capital Strategy, the purpose of which is to firmly place decisions around borrowing and investing in the context of the overall longer-term position of the CJC. This document is incorporated into the TMSS. *CIPFA has provided detail on the Capital Strategy in the 2021 Prudential Code (Section 5, pages 17-19) and in the Prudential Code Guidance Notes to the 2021 (pages 21-33 as well as a checklist in Appendix A).* The *Strategic Director – Resources* reports explicitly on the affordability and risk associated with the Capital Strategy and whether they are satisfied that the proposed capital programme is prudent, affordable and sustainable, with an explanation how the conclusion has been reached. The *Strategic Director - Resources* also ensures that where detailed information is required, this will be made available in a format to encourage active engagement and, if necessary, any associated training needs of members.
Treasury Management Strategy	This document, approved by CJC annually before the start of each financial year, covers External Context: economic background; credit outlook; interest rate forecast Local context: - Balance sheet summary and forecast and an explanation of the movements - Liability benchmark - The existing investment and debt portfolio position - The CJC's borrowing strategy; approved sources of borrowing and other sources of debt finance; *(if applicable)* LOBOs, debt rescheduling - The CJC's Treasury investment strategy, ESG policy for investments, approved investment instruments, counterparties and

	time/monetary limits; minimum credit ratings (where applicable) and risk assessment; - Treasury management prudential indicators - Related matters -e.g. use of financial derivatives - MiFID II status - Financial implications of the strategy
Treasury Activity Reports, quarterly reporting of Prudential Indicators	The **Annual Treasury Outturn Report** will be prepared by the *Strategic Director – Resources* as soon as practicable after the financial year end. It covers the treasury activity undertaken against the forecast and prevailing economic and interest rate backdrop for the full financial year. This annual report includes: - borrowing and investment activities undertaken including forward deals agreed and their revenue (current) effects - report of material treasury decisions taken in year - risk implications of decisions taken and transactions executed - compliance with agreed policies/practices and on statutory/ regulatory requirements - report on compliance with CIPFA TM Code recommendations - monitoring of treasury management indicators for local authorities - training /CPD undertaken by treasury officers. A **Mid-Year Treasury Outturn Report** will be prepared by the *Strategic Director - Resources*, and report on treasury management activities for the first half of the financial year. It covers the treasury activity undertaken against the forecast and prevailing economic and interest rate backdrop for the first 6 months. This mid-year review includes: - borrowing and investment activities undertaken including forward deals agreed - report of material treasury decisions - variations (if any) from agreed policies/practices - interim performance report - monitoring of treasury management indicators - forecast for the remainder of the financial year **Quarterly Treasury Management Outturn Report***:* **Prudential Indicators**: The 2021 Treasury Management Code introduced a requirement that monitoring of the treasury management indicators should be reported quarterly (along with the other prudential indicators) as part of the CJC's general revenue and capital monitoring. Reports will be submitted to the Governance and Audit Sub Committee and the *Strategic Director - Resources* responsible for the scrutiny of treasury management policies, practices and activity. .

Content and frequency of other management information reports *(if applicable)*	The Strategic Director - Resources produces a Quarterly monitoring report for the CJC. This report includes details of: • borrowing and investment activity undertaken including forward deals • brokers' fees • performance of internal and external investments against benchmark • cash flow monitoring • interest rates and forecasts • extent of compliance with the treasury strategy and reasons for variance (if any) • any other, e.g. details of daily bank balances against target balances

TMP7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Strategic Director - Resources will prepare - and the CJC 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 Strategic Director - Resources 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*.

The CJC 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.

Schedule

Statutory/regulatory requirements	*Balanced Budget Requirement*: Part I of the Local Government Finance Act 1992 sets out what the CJC has to base its budget calculations upon and requires the CJC to calculate its budget requirement for each financial year including, among other aspects: (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account, and (b) revenue costs which flow from capital financing decisions The Act requires the CJC to set a council tax sufficient to meet expenditure after taking into account other sources of income.
Accounting practices and standards	▪ The Accounts and Audit (Wales) Regulations 2014 and subsequent amendments ▪ The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments ▪ Welsh Government Statutory Guidance on Minimum Revenue Provision (2018 Edition) ▪ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK (2022/23 Edition) ▪ Relevant CIPFA Bulletins ▪ IFRS 7 Financial Instruments: Disclosures ▪ IFRS 9 Financial Instruments ▪ IAS 23 Borrowing Costs ▪ IAS 32 Financial Instruments: Presentation ▪ IPSAS 28 Financial Instruments: Presentation ▪ IPSAS 30 Financial Instruments: Disclosures ▪ IPSAS 41 Financial Instruments

Financial Statements	The Financial Statements comprise: ▪ Narrative Report ▪ Responsibilities for the Statement of Accounts ▪ Annual Governance Statement ▪ Comprehensive Income and Expenditure Statement (Group and Authority) ▪ Movement in Reserves Statement ▪ Balance Sheet (Group and Authority) ▪ Cash Flow Statement (Group and Authority) ▪ Notes to the Financial Statements ▪ Collection Fund ▪ Remuneration Report ▪ Glossary and abbreviations
Format of the CJC's accounts	The current form of the CJC's accounts is available: *https://www.cardiffcapitalregion.wales/wp-content/uploads/2023/04/cardiff-capital-region-city-deal-joint-committee-audited-statement-of-accounts-202122.pdf*
Disclosures relating to treasury management	Notes to the annual Statement of Accounts include: • Financial Instruments – Financial Assets, Financial Liabilities; Income, Expense, Gains and Losses on Financial Instruments • Fair Value of Financial Assets and Liabilities • Nature and Extent of Risks arising from Financial Instruments: Credit Risk, Liquidity Risk, Refinancing and Maturity Risk, Market Risks (Interest rate risk, Price risk and Exchange Rate Risk) The CJC's treasury advisor, Arlingclose, provides a template for the above each year. The CJC will exercise judgement on the level of detail to be disclosed about particular financial instruments, taking into account the relative significance of those instruments. So that the information is comprehensible, material information should not be obscured by immaterial information or by aggregating material items that have different natures or functions.
Internal and External Audit	Internal Audit generally conducts a review of the treasury management function and probity testing in line with its 5 year rolling Internal Audit Plan. - The internal and external auditors will be given access to treasury management information/documentation as required by them.
List of information requirements of external auditors	The following information* is requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the CJC's officers. *Information in this context includes internally generated documents including those from the CJC's Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function. ▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003

	▪ Prudential Indicators ▪ Treasury Management Strategy including Annual Investment Strategy <u>External borrowing</u> • New loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments) • Loan maturities • Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years. • Analysis of loans outstanding at year end including maturity analysis • Analysis of borrowing between long- and short-term • Debt management and financing costs ▪ calculation of (i) interest paid (ii) accrued interest ▪ interest paid • MRP calculation and analysis of movement in the CFR. • Bank overdraft position. • Brokerage/commissions/transaction related costs <u>Investments</u> • Investment transactions during the year including any transaction-related costs • cash and bank balances at year end • Short-term investments at year end • Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end • calculation of (i) interest received (ii) accrued interest • actual interest received • Pooled funds' purchase and sale contract notes; notification of income distributions (if any) • Evidence of existence and title to investments (month-end / quarter-end statements) • Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the CJC. <u>Cash Flow</u> • Reconciliation of the movement in cash to the movement in net debt • Cash inflows and outflows (in respect of long-term financing) • Cash inflows and outflows (in respect of purchase/sale of long-term investments) • Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources <u>Other</u> • Details of (treasury-related) material events after balance sheet date not reflected in the financial statements. • External advisors'/consultants' charges

Prudential Indicators	The treasury management indicators must be considered together with indicators in the Prudential Code as part of the budget approval process. From 2023/24, monitoring of the treasury management indicators will be reported quarterly (along with the other prudential indicators) as part of the CJC's general revenue and capital monitoring.
Compliance with CIPFA Treasury Management and Prudential Codes	Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy. They may also be expected to enquire as to whether the TM Code has been adopted and whether its principles and recommendations have been implemented and adhered to. Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.
Costs for treasury management	The budget for treasury management forms part of the overall CJC Operational Budget and includes *items below are CIPFA's recommendations:* • staffing numbers and related costs • premises and other administrative costs • interest and other investment income • debt and other financing costs (or charges for the use of assets) • bank and overdraft charges • brokerages, commissions and other transaction-related costs • external advisors' and consultants' charges.

TMP8: CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the CJC will be under the control of the *Strategic Director - Resources* 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 *Strategic Director - Resources* 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 below.

Schedule

Arrangements for preparing /submitting cash flow statements	Cash flow forecasts will be viewed over at least 3-year time horizons and will be used to formulate the CJC's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances. The cash flow forecasts and statements are held at operational level. An **outline medium-term cash flow** model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves. A **detailed annual cash flow** is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a frequent basis. It identifies the major inflows and outflows on a month by month basis. It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the CJC's various service sections receiving the income and can be supplemented by the experience from previous years. **Daily cash flows** show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in CJC's treasury management systems.
Liability Benchmark (LB)	The Liability benchmark helps establish whether the CJC is likely to be a long-term borrower or long-term investor in the future and represents an estimate of the cumulative amount of external borrowing the CJC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level to manage day-to-day cash flow. The LB will be updated regularly through the year by the CJC (using the Arlingclose online LB tool on Microsoft Teams) with developments and/or timing changes in the capital programme as well as changes to balance sheet resources. ***Please see TMP 5 for more information on its use.***

<table>
<tr><td>Content and frequency of cash flow budgets</td><td>The detailed annual cash flow model includes the following:
revenue income and expenditure based on the budget
profiled capital income and expenditure as per the capital programme
Revenue activities

Capital activities including financing

Financing, servicing of finance/returns on investments</td></tr>
<tr><td>Monitoring, frequency of cash flow updates</td><td>The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with real data on the general ledger.</td></tr>
<tr><td>Bank statements procedures</td><td>The CJC receives bank statements on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a daily basis.</td></tr>
<tr><td>Payment scheduling and agreed terms of trade with creditors</td><td>The CJC has a policy of paying suppliers in line with agreed terms of trade and the following service standards (utilising transactional support from RCT's Central Payments Team):
Invoices are paid on the next payment run, once approved. RCT generally has three payment runs each week.</td></tr>
<tr><td>Arrangements for monitoring debtor/ creditor levels</td><td>Debtor levels are monitored using a frequent Sundry Debtors Monitoring Report to the Strategic Director - Resources which will include an analysis of debt by age and details and details of recovery status.

The level of creditor invoices being processed/remaining unpaid is monitored on a weekly basis by the RCT Creditors team. A report is produced that details all BACS and cheque payments to be made in advance.</td></tr>
<tr><td>Procedures for banking of funds</td><td>Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received are banked using the Paying-in Book provided in respect of the CJC's bank account in operation.

All the CJC's sections are advised of the requirement to bank on a regular basis to comply with recommended best practice and also remain within the particular insurance limits for the CJC's premises.</td></tr>
<tr><td>Listing of sources of information</td><td>The treasury function receives cash flow information from the following persons/departments:

<table>
<tr><td>Type of Information</td><td>Source</td></tr>
<tr><td>Payroll</td><td>CJC Finance Team</td></tr>
<tr><td>Creditor Payment Runs</td><td>CJC Finance Team</td></tr>
<tr><td>CHAPs Payments</td><td>CJC Finance Team / CJC Delivery Teams</td></tr>
<tr><td>Purchasing Cards</td><td>CJC Finance Team</td></tr>
<tr><td>Payments Scheduler</td><td>CJC Finance Team</td></tr>
<tr><td>Income Scheduler</td><td>CJC Finance Team</td></tr>
<tr><td></td><td></td></tr>
<tr><td></td><td></td></tr>
</table>
</td></tr>
</table>

TMP9: MONEY LAUNDERING

The CJC 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 below.

Schedule

Anti-money laundering policy	This CJC's policy is to prevent, wherever possible, the organisation and its employees being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The CJC has accepted responsibility to ensure those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.
Main offences relating to money laundering	The **Proceeds of Crime Act (POCA) 2002** established the main offences relating to money laundering. In summary, these are: • concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland • being concerned in an arrangement that a person knows or suspects facilitates the acquisition, retention, use or control of criminal property • acquiring, using or possessing criminal property. These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction. Other offences include: • failure to disclose money laundering offences • tipping off a suspect, either directly or indirectly • doing something that might prejudice an investigation – for example, falsifying a document. The **Terrorism Act 2000** made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

Documentation	The CJC will reflect the anti-money laundering measures it has in place as part of its Money Laundering Guidelines & Policy Such measures include: • Awareness of what constitutes money laundering and training for employees most likely to encounter it • The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed • Maintaining up-to-date direct dealing and SSI mandates with counterparties
Nomination of Responsible Officer(s)	(a) The CJC has nominated the *Strategic Director - Resources* to be the responsible officer(s) to whom any suspicions relating to transactions involving the CJC will be communicated (b) The *Strategic Director - Resources* will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions (c) The *Strategic Director - Resources* will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS)
Procedures for establishing the identity/authenticity of Lenders and Borrowers	(a) In the course of its treasury activities, the CJC will only borrow from permitted sources identified in TMP4 *Approved instruments, methods and techniques* (b) The CJC will not accept loans from individuals. (c) In the course of its treasury activities, the CJC will only invest with those counterparties which are on its approved lending list, and delivered via the agreed SLA with RCT (d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/Prudential Regulation Authority's website https://www.bankofengland.co.uk/prudential-regulation/authorisations/which-firms-does-the-pra-regulate (e) All receipts/disbursements of funds will be undertaken by Bacs or CHAPS settlement (f) Direct dealing mandates: The CJC will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed (g) All banking transactions will only be undertaken by the personnel authorised to operate the CJC's banks accounts (h) If the CJC takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals

	(i) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details
Counterparties	When borrowing/investing funds for treasury management purposes, the CJC will only borrow from and invest with sources and counterparties as identified in the Treasury Management Strategy. The criteria for the construction and management of the lending list are detailed in TMP1 *Risk Management*.

TMP10: TRAINING AND QUALIFICATIONS

The CJC 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 *Strategic Director - Resources* will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The *Strategic Director - Resources* will ensure that members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and 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 are detailed in the schedule below.

Schedule

Details of approved qualifications	*There is no list of approved qualifications, although staff are encouraged to apply to study for relevant qualifications such as AAT or CIPFA*
Details of approved training courses	The courses/events the CJC would expect its treasury personnel to consider are: ▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management run by CIPFA and the Association of Corporate Treasurers and other appropriate organisations ▪ Any workshops/seminars run by Treasury Management Consultants ▪ Attending CIPFA Conference ▪ Training attended by those responsible for scrutiny of the treasury function
Records of training received by treasury and other relevant staff	Treasury-related training records are maintained by the individual officers
Records of training received by those charged with governance	Training will be provided to Governance and Audit Sub Committee aligned to their responsibility for the scrutiny of Treasury Management Activities. This will be facilitated by both Staff & External Advisers

TMP11: USE OF EXTERNAL SERVICE PROVIDERS

The CJC recognises that responsibility for the treasury management decisions remains with the CJC at all times. It recognises that there may be potential value of 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 will 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 over reliance 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 Strategic Director - Resources, and details of the current arrangements are set out in the schedule below.

Schedule

Contract threshold	The CJC's Financial Regulations require that a formal contract is in place with external service providers where the contract value is £15K or above per annum. The contract will clearly state the services to be provided and the terms on which they will be provided.
Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of the services provided	(a) Bankers to the CJC Barclays plc, 1 Churchill Place, London E14 5HP Contact Telephone number 0345 734 5345 (b) Treasury advisor Arlingclose Limited, 217 Strand London WC2R 1AT, 08448 808 200 Contract period: Starting 1st January 2024-31st March 25 Formal agreement in place: Yes Services provider: Arlingclose Limited **The CJC recognises that responsibility for borrowing, investments and risk management remains with the CJC.** (c) Brokers - It is considered good practice for the CJC to have at least two brokers and to spread business between them. No brokers are appointed at this time, upon requirement CJC will appoint at least 2 brokers. Records will be updated. **The CJC recognises that is not the role of brokers to provide advice on the creditworthiness of those organisations to which the CJC may lend.**

Regulatory status of services provided	The CJC's external service providers are listed below, along with their regulatory status: • Bankers to the CJC – regulated by Prudential Regulation Authority • Treasury Adviser – regulated by Financial Conduct Authority • On appointment: Broker 1 – regulated by Financial Conduct Authority • On appointment: Broker 2 – regulated by Financial Conduct Authority
Bribery Act	The CJC is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers.

TMP12: CORPORATE GOVERNANCE

The CJC 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 activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The CJC has adopted and has implemented the key principles of the Treasury Management Code of Practice.

This, together with the other arrangements detailed in the schedule below, is considered vital to the achievement of proper corporate governance in treasury management, and the Strategic Director - Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule

Stewardship responsibilities	The Strategic Director - Resources ensures that: ▪ systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function. ▪ formal policy documents will define clearly procedures for monitoring, control and internal check and reporting lines are well defined.
List of documents to be made available for public inspection	The following documents are freely available for public inspection: ▪ Annual Statement of Accounts ▪ 5 Year Capital Plan ▪ Treasury Management Policy ▪ Treasury Management Strategy including the Capital Strategy ▪ Budget Monitoring Reports ▪ Annual and Mid-Year Treasury Report ▪ Quarterly monitoring and reporting of Prudential Indicators
CJC's website	Financial information is additionally available on the CJC's website.
Responsibility for treasury management	The Strategic Director - Resources will ensure that ▪ those charged with responsibility for the treasury management policy, i.e. CJC/Governance & Audit Sub Committee have all the information necessary to enable them to openly fulfil their obligations, and are fully appraised of and consulted on the CJC's treasury management activities on a regular basis. ▪ the procedures for monitoring treasury management activities through audit, scrutiny and inspection are sound and rigorously applied, with an openness of access to information and well-defined arrangements for the review and implementation of recommendations for change.
Procedures for consultation with stakeholders	As part of budget setting, consultation is taken with a wide variety of stakeholders via General Public meetings and specific forums

List of external funds managed on behalf of a third party and the basis of attributing interest earned and costs to these investments	No external fund managers used currently.

Notes:

Items the CJC would maintain at operational level referred to in this template are process notes and Guidelines. In some cases this is maintained by RCT per the pooling arrangement outlined above.

1. The CJC's Credit Criteria
2. Current Lending List
3. Business Reserve Accounts / Money Market Funds
4. Counterparties with whom the CJC deals direct
5. Dealing checklist
6. Deal ticket proforma
7. Format of the CJC's Standard Settlement Instructions form
8. Settlement Procedures
9. Procedure Notes for the CJC's on-line banking system
10. Procedure Notes for the CJC's treasury management system
11. Procedure Notes for dealing online with counterparties
12. Procedure for dealing with requests for change of banking/payment details

SOUTH EAST WALES CORPORATE JOINT COMMITTEE

Minimum Revenue Provision Statement 2024/25

Where the South East Wales Corporate Joint Committee finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the CJC to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the CJC to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- The CJC expects that its capital financing requirement will be nil on 31st March 2024 and in line with the WG Guidance it will therefore charge no MRP in 2024/25. The CJC is debt free and its capital expenditure plans do not currently imply any need to borrow.

- For unsupported capital expenditure incurred, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset, the CJC will evaluate on a case-by-case basis whether to charge in equal instalments *or* as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

- MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction (for example equity investments, REFCUS, etc.) will be charged over the period specified in the Welsh MRP guidance.

- Where former operating leases have been brought onto the balance sheet on due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the CJC will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.

Based on the CJC's latest estimate of its capital financing requirement (CFR) on 31st March 2024, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR £m	**2024/25 Estimated MRP £**
Supported capital expenditure	0	Nil
Unsupported capital expenditure	0	Nil
Leases	0	Nil
Loans to other bodies repaid in instalments	0	Nil
Total CJC General Fund	**0**	**Nil**

Future Generations Assessment Evaluation
(includes Equalities and Sustainability Impact Assessments)

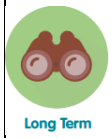
Name of the Officer completing the evaluation:	**Please give a brief description of the aims of the proposal**
Hrjinder Singh **Phone no:** 07890 027492 **E-mail:** h.singh@cardiff.gov.uk	To set-out the South East Wales Corporate Joint Committee's (CJC) Treasury Management Strategy for 2024/25
Proposal: To agree the SEWCJC Treasury Management Strategy for 2024/25.	**Date Future Generations Evaluation form completed:** 4th March 2024

1. **Does your proposal deliver any of the well-being goals below?** Please explain the impact (positive and negative) you expect, together with suggestions of how to mitigate negative impacts or better contribute to the goal.

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
A prosperous Wales Efficient use of resources, skilled, educated people, generates wealth, provides jobs	The report details the CJC's proposed Treasury Management arrangements, effective from the 1 April 2024, when the CJC is scheduled to transition from the current Building on Foundations arrangements to the full South East Wales Corporate Joint Committee (SEWCJC) as per the Lift & Shift Model approved by Members. This will allow the CJC to deliver a Prosperous Wales via the deployment of it Wider Investment Fund.	Work is being undertaken to ensure that the outputs of the CJC's investments generate the right balance of impacts across the region, driving a healthy balance between economic, social, ESG and ethical considerations. By putting in place an effective Treasury Management policy will ensure that returns on Capital get reinvested into SEW CJC's activities to continue the development of a prosperous Wales
A resilient Wales Maintain and enhance biodiversity and ecosystems that support resilience and can adapt to change (e.g. climate change)	Activity around the strategic development planning, regional transport planning and economic well-being will all contribute to enhancing and strengthening the resilience of the region. The SEWCJC provides new powers for the region to directly impact upon and implement activity in these areas.	Collaborative working across local and national government to ensure unified activity and focus on delivering the right outcomes. In pooling resources we are able to obtain Maximum gains with less resources and therefore providing Value for Money.
A healthier Wales People's physical and mental wellbeing is maximized and health impacts are understood	The SEW CJC will contribute towards meeting the well-being objectives set by each of the ten constituent local authorities in order to achieve the national wellbeing goals for the region. Inclusion is a core theme of the plan as is and balancing a focus on levelling up the region with other	ESG and equality and diversity focus to ensure emphasis on societal and community needs.

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
	regions in the UK to ensure SEWCJC accesses all of the opportunities available to it – thus supporting not just sectors and industries but communities and people.	
A Wales of cohesive communities Communities are attractive, viable, safe and well connected	The conferment of powers to the SEWCJC to develop and implement a Regional Transport Plan will significantly improve and enhance community travel and connectedness for the Cardiff Capital Region.	Consideration of specific Northern Valleys / strategic utilities fund will further assist with this goal.
A globally responsible Wales Taking account of impact on global well-being when considering local social, economic and environmental wellbeing	Not directly applicable although the conferred powers of the SEWCJC will impact the region and in tandem with the other three CJCs, will have a positive impact across the Welsh nation and will therefore present Wales as a destination for local, social, economic, and environmental well-being.	Further work has been done with bodies such as Universities Wales and SIACW to consider impact of UK working outside of Horizon Europe.
A Wales of vibrant culture and thriving Welsh language Culture, heritage and Welsh language are promoted and protected. People are encouraged to do sport, art and recreation	The development of the economy of the region will open up more opportunities for the development of resources which can promote Welsh culture in communities across South East Wales.	As above
A more equal Wales People can fulfil their potential no matter what their background or circumstances	The key functions of the SEWCJC around regional transport planning and economic well-being will impact on our communities by creating better connectivity and better quality of life for them. The strategic development planning aspect will help bring business and community together as the well-being of the region is scaled up. Partnering with the Brecon Beacons National Park Authority (BBNPA) on the rail and Strategic Development Plan will allow the region to achieve additional support in reaching these goals.	As above

2. How has your proposal embedded and prioritized the sustainable governance principles in its development?

Sustainable Development Principle	Does your proposal demonstrate you have met this principle? If yes, describe how. If not explain why.	Are there any additional actions to be taken to mitigate any negative impacts or better contribute to positive impacts?
 Balancing short term need with long term and planning for the future	The interim "Building the Foundations" stage represents a twin track model moving towards the 'Lift & Shift' from 1st April 2024. This means that activity around and implementation of the core functions of the SEW CJC will be staggered. The 2024/25 Treasury Management Strategy provide evidence of the necessary balance between short-term need and long-term planning.	This will be continually reviewed to ensure that the Treasury Management Strategy is built upon and reinforced through the development and publication of the CJC's 5 year Strategic Business Plan which reflect back to the more medium-term ambition and is inline with SEW CJC's goals.
Working together with other partners to deliver objectives	A cornerstone of the region's process is the strength of partnership working. The CJC is working collaboratively to deliver the Treasury Management Strategy on a 'Pooled' basis with RCT County Borough Council.	Risks and Rewards will be managed inline with Treasury Management Strategy to ensure low risk investments and managed returns.
Involving those with an interest and seeking their views	Communications and engagement remain a feature of our work and the region will continue with its regular communication updates disseminating the information to the wider public sector, private sector and local communities to ensure transparency of process.	Discussions are ongoing to understand how the work of the CJC can be structured to ensure full engagement with the communities and citizens of the Cardiff Capital Region.
Putting resources into preventing problems occurring or getting worse	The 'Building on Foundations' twin track model moving towards the 'Lift & Shift' model will allow the region to maintain equilibrium until the region can move into one integrated model of regional public investment and economic governance under the SEW CJC. As outlined above, the transition is on target to be completed by 1st April 2024.	As above.
Considering impact on all wellbeing goals together and on other bodies	Regional partnership working and close liaison with UK and Welsh Governments and the private sector, within and outside Wales, will help ensure we meet this goal.	This can be further reinforced in the CJC setting and when Cabinet and partners have access to greater freedoms and flexibilities.

3. Are your proposals going to affect any people or groups of people with protected characteristics? Please explain the impact, the evidence you have used and any action you are taking below.

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Age	The report is seeking approval to proceed with the proposed CJC Treasury Management arrangements for 2024/25. The protected characteristic assessments related to specific activity in the SEW CJC will need to be drawn out in the relevant documentation at the appropriate time.	Not relevant in this context since the plan, approach and ways of working apply to all prospective interests and stakeholders	Not relevant in this context since the plan, approach and ways of working apply to all prospective interests and stakeholders
Disability	As above	As above	As above
Gender reassignment	As above	As above	As above
Marriage or civil partnership	As above	As above	As above
Pregnancy or maternity	As above	As above	As above
Race	As above	As above	As above
Religion or Belief	As above	As above	As above
Sex	As above	As above	As above
Sexual Orientation	As above	As above	As above
Welsh Language	As above	Not at this time but the situation will be kept under review.	As above

4. Safeguarding & Corporate Parenting. Are your proposals going to affect either of these responsibilities?

	Describe any positive impacts your proposal has on safeguarding and corporate parenting	Describe any negative impacts your proposal has on safeguarding and corporate parenting	What will you do/ have you done to mitigate any negative impacts or better contribute to positive impacts?
Safeguarding	Not directly relevant; however, building the future economy and effecting the well-being elements of the SEW CJC should have a profoundly positive impact on the region's ability to safeguard the future of its residents.	Not relevant in this context since the plan, approach and ways of working apply to all prospective interests and stakeholders	As above
Corporate Parenting	Not directly relevant; however, building the future economy and effecting the well-being elements of the SEW CJC should create opportunities for all of the young people entrusted in our care.	As above	As above

4. What evidence and data has informed the development of your proposal?

- Legislation as set out by UK Government.
- Legislation as set out by Welsh Government.
- Discussion and advice from Audit Wales.
- Discussion and approval on activity in line with the legislation from the Cardiff Capital Region Joint Cabinet.
- Extensive legal advice and other legal due diligence.
- Legislation around financial matters relating to tax, financial status, borrowing powers, etc.

5. SUMMARY: As a result of completing this form, what are the main positive and negative impacts of your proposal, how have they informed/changed the development of the proposal so far and what will you be doing in future?

The areas requiring attention and focus are set out and follow-up actions will be assessed and monitored ongoing through a reporting mechanism to be agreed in light of the ''Building on Foundations' approach being taken at this time.

6. MONITORING: The impacts of this proposal will need to be monitored and reviewed. Please specify the date at which you will evaluate the impact, and where you will report the results of the review.

The impacts of this proposal will be evaluated on:	Evaluated quarterly – Treasury Management Strategy is monitored and reported on every quarter.