

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

Consultation

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money. Further information about CIPFA can found on the [CIPFA website](#).

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Introduction

The first version of the *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (Treasury Management Code) was published in 2001 with a recommended start date of 1 April 2002. While the Treasury Management Code covers all public services, it is primarily designed for the use of local authorities (including police and fire and rescue authorities), providers of social housing, higher and further education institutions and the National Health Service. Local authorities in England, Scotland and Wales are required to “have regard” to the Treasury Management Code.

The Treasury Management Code defines treasury management as follows:

The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Treasury management is therefore a vital function of a local authority it ensures an organisation’s cash values are maintained and, particularly important in a pandemic, it ensures that local authorities understand their cash flows and have the monies available to meet the emergency situations that arise.

The Treasury Management Code was last updated in 2017. Since then the landscape for public services has changed. The increasing profile of the role of treasury management as a result of the pandemic, the disciplines and skills required to meet the advances brought forward by issues such as the Markets in Financial Instruments Directive, known as MIFID II, and the increasing complexity of transactions in the sector all underline the importance of the Treasury Management Code and its guidance. In addition, the rise in commercial non-treasury investments is a contributing factor behind the need to strengthen its provisions to ensure that they are fit for the 21st century.

The Prudential Code of Capital Finance in Local Authorities, CIPFA 2017 (Prudential Code), is currently also under review and we recommend responding to both consultations. This is the first of two consultations this year, on a principles basis with more details following in the second consultation.

It should be noted that changes to the Prudential Code may also lead to changes in Section 8 (Investments that are not part of treasury management activity) of the Treasury Management Code.

Who is this consultation aimed at?

Views are sought from any public service organisation; however, responses are specifically welcomed from local authorities, providers of social housing, higher and further education institutions and the NHS.

Scope

Local authorities are required to “have regard” to the Treasury Management Code. CIPFA believes that the provisions in the Treasury Management 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. CIPFA would like to invite comments on the proposals within this consultation on the adoption of new recommended policies and practices.

Consultation issues and questions

Treasury management practices (TMP) – TMP 10 Training and Qualifications

The Treasury Management Code recommends that an organisation produces and follows a list treasury management practices (TMPs) relevant to its treasury management powers and the scope of its treasury management activities.

One of the TMPs (TMP 10) explicitly deals with training and qualifications. CIPFA is particularly concerned that, in order to meet the needs of modern professional practices, both officers and board or council members have the skills to ensure that those responsible for the management, delivery and governance are able to understand the significance and complexities of the transactions undertaken – and are able to take effective decisions.

CIPFA therefore proposes augmenting TMP 10 Training and Qualifications to ensure that the organisation recognises the importance of all staff and board/council members having the required skills and knowledge to be able to undertake their duties and responsibilities and being clear that the training required is specified as a part of the TMP. TMP 10 already requires that the training and qualifications schedule documents these requirements.

Extract from the Treasury Management Code

SECTION 7

Treasury management practices

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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/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, [the knowledge and skills schedule](#), are detailed in the schedule to this document.

Question 1: Do you agree with the proposal that organisations that have adopted the Treasury Management Code will have to explicitly document 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? If not, why not? What alternatives would you suggest?

What should be included in a knowledge and skill schedule?

CIPFA is of the view that the schedule should be described as the knowledge and skills schedule and would recommend that this would include the following (note that this will be included in future guidance to the Treasury Management Code):

- The aims and objectives of the knowledge and skills schedule.
- Relevant 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.
- The relevant competencies for each role.
- How the training will be delivered, eg in house training, external courses (specifying the type course followed), the need for formal qualifications), this would include induction requirements.
- How the regularly the training will need to be provided.
- How the training will be recorded.
- How the knowledge or skills will be monitored, including gaps in training or 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.

Question 2: Do you agree with the proposals for what should be included in a knowledge and skills schedule?

Monitoring and review of knowledge and skills

CIPFA is of the view that ensuring objectives relating to knowledge and skills are being met is important. 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, CIPFA proposes 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).
- Regular communications with officers and board/council members encouraging them to highlight training needs on an ongoing basis.

Again, CIPFA is of the view that it will include provisions on guidance on recording and monitoring knowledge and skills capabilities in guidance to the Treasury Management Code.

Question 3: Do you agree with the proposals for the monitoring and review of treasury management knowledge and skills? Do you agree that these are best specified in guidance to the Treasury Management Code? If not why, not? What alternatives do you suggest?

Competencies for treasury management roles

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.

At 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.

CIPFA has included the competencies for the first of these roles in Annex 1 to this consultation paper and subject to the consultation process intends to specify the competencies for each of these roles in guidance to the Treasury Management Code.

Question 4: Do you agree that guidance to the Treasury Management Code should include specifications on key competencies for treasury management roles?

TMP 13 Environmental, Social and Governance Risk Management (ESG Risk Management)

Local authority and other public sector stakeholders are increasingly interested in environmental and social issues. Substantial numbers (around 75%) of local authorities have declared climate emergencies. Similarly, recent events have meant that social issues such as diversity and modern slavery have also increased the need for social awareness and demonstration of this awareness in local authority policies. More financial investments and institutions offer incentives for green criteria. Local authorities and their stakeholders are increasingly aware of the importance of these issues and the significance that investing in these areas will have.

The risks associated with environmental, social and governance (ESG) related investments must be understood and managed by local authorities; for example, these include climate and carbon related risks and might for example focus on high energy sectors. Building ESG risk management into treasury management is an essential part of future proofing its processes and supporting social and environmental change.

CIPFA considers that it is timely therefore to introduce a new treasury management practice into the Code which will establish, implement, and monitor the arrangements for the identification, management and control of ESG risks. The new TMP is included in Annex 2 to this consultation paper.

Question 5: Do you agree with the addition of a new TMP to address environmental, social and governance risks? If not, why not? What alternatives do you suggest?

Local authority treasury management governance

Local authorities are entering into increasingly complex treasury management functions and decisions.

There are also substantial corporate responsibilities that have been introduced as a result of MIFID II, which came into force in January 2018.

Numerous local authorities have taken up the option of professional client status. This category applies to a client who possesses the experience, knowledge and expertise to make its own investment decisions and assess the risks those investment decisions incur. This impacts on the knowledge and skills schedule discussed earlier in this consultation, but it will be important that those charged with governance have the opportunity to review those decisions.

TMP 12 Corporate Governance includes specification and guidance on the relevant issues, and this is supported by guidance in the Treasury Management Code. The Treasury Management Code establishes a robust framework to establish proper governance of the issues.

CIPFA is of the view, however, that the importance, and the additional and complex responsibilities facing local authorities might benefit from both specialised and specific committees to deal with those issues.

This might for example be a treasury management board made up of senior and cross-party membership, including senior officers of the council with the appropriate knowledge and skills to review the treasury management policies and monitor and review decisions made. CIPFA anticipates issuing guidance to this effect in its publication *Treasury Management in the Public Services Guidance Notes for Local Authorities including Police Forces and Fire and Rescue Authorities*

Question 6: Do you agree more complex treasury management functions (ie a professional client under MiFID II legislation) means that local authorities would benefit from the support of a dedicated committee to review decisions and strategies and that CIPFA should recommend this in its guidance provided to local authorities? If not, why not? What alternatives would you suggest?

Local authority treasury management indicators – maturity structure of borrowing

Local authority treasury management indicators are included in CIPFA's *Treasury Management in the Public Services, Guidance Notes for Local Authorities Including Police Forces and Fire and Rescue Authorities*, 2018 Edition. On the introduction of the liability benchmark to the Prudential Code, CIPFA recommends the removal of the maturity structure of borrowing treasury management indicators.

Question 7: Do you agree with the removal of the maturity structure of borrowing treasury management indicators on the introduction of the liability benchmark indicator? If not, why not? What alternatives would you suggest?

Annex 1

Knowledge and skills competencies

Treasury management function knowledge and skills competencies (as applicable to local authorities)

This guidance provides a sample framework of competencies required for committee members, responsible officers, S151 officers and treasury managers. 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 will be a decision for each authority to consider what the appropriate competencies are for their treasury management function, and the level of knowledge required for each individual.

The levels of knowledge in this section have been split into the following categories (in ascending order of the level of knowledge required):

For committee members:

- An awareness – ie recognition that the subject matter exists.
- A general understanding – ie understanding the basics in relation to the subject matter.
- A strong understanding – ie a good level of knowledge in relation to the subject matter (but not necessary at detailed level).
- For officers:
- A strong understanding – ie a good level of knowledge in relation to the subject matter (but not necessary at detailed level).
- Detailed knowledge – ie detailed knowledge in relation to the subject matter.
- Expert knowledge – ie expert knowledge in relation to the subject matter.

Part 1 – Treasury managers' competencies

General competencies

- Detailed knowledge of developing investment and treasury management strategies and investment processes.
- Detailed knowledge of the key risks that the authority is exposed to and how a local authorities' investment/treasury management strategy should be considered in conjunction with these risks.
- Detailed knowledge of the risk and return characteristics of the main asset classes (deposits, pooled funds, bonds, property), and the need to balance risk versus reward when determining the investment strategy.
- Detailed knowledge of the local authorities' cashflow requirements and how this impacts on the types of investments considered.

Financial markets

- A strong understanding of the primary importance of the investment strategy decisions.
- A strong understanding of the workings of the financial markets and of the investment vehicles available to the local authority and the nature of the associated risks.
- A strong understanding knowledge of the restrictions placed by regulation or case law, on the investment activities of local authorities.

Statutory and legislative frameworks

- A strong understanding of MIFID II requirements.
- A strong understanding of MHCLG *Statutory Guidance on Local Government Investments* (and the equivalent guidance in Wales).
- A strong understanding of *Statutory Guidance on Minimum Revenue Provision* (note that this would need to be relevant to the jurisdiction in which a treasury manger operates).
- A strong understanding of CIPFA's *Treasury Management In the Public Services Code Of Practice And Cross-Sectoral Guidance Notes* (CIPFA 2017) and the *Treasury Management Code of Practice and Treasury Management in the Public Services Guidance Notes for Local Authorities Including Police Forces and Fire and Rescue Authorities 2018 Edition*.
- A strong understanding of the *Prudential Code for Capital Finance in Local Authorities*, 2017 Edition and *The Prudential Code for Capital Finance in Local Authorities, Guidance Notes for Practitioners, 2018 Edition*.

Annex 2

TMP 13 Environmental, Social and Governance Risk Management

General statement

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

The responsible officer will establish, implement and monitor all arrangements for the identification, management and control of Environmental, Social and Governance risks, will report at least annually on adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

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

ESG counterparty risk management

This organisation will ensure that its counterparty lists and limits consider Environmental, social and Governance risks attributed to organisations with whom funds may be deposited and will manage exposure to such risk.

It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter into other financing or derivative arrangements.