

AUDIT AND GOVERNANCE COMMITTEE

22 May 2009

TREASURY MANAGEMENT IN LOCAL AUTHORITIES

Report of the City Treasurer

1. Purpose of Report

- 1.1 The purpose of this report is to set out the key findings of the report, 'Risk and Return', issued by the Audit Commission in relation to treasury management practices in local authorities, the summary position in relation to the City Council, recent draft guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in this regard, and a proposal to widen the Terms of Reference of the Audit and Governance Committee to cover Treasury Management matters specifically.

2. Background

- 2.1 The collapse of the Icelandic banks in October 2008 highlighted the large sums of public money on deposit within financial institutions outside as well as inside the UK. A number of UK local authorities had investments in Icelandic banks which are at risk of non repayment, either in whole or in part.
- 2.2 Sunderland City Council did not have any Icelandic banks on its approved lending list and as such have no exposure in relation to these banks. However, the rapidly changing global financial environment has necessitated a range of actions, including the regular and continuous review of treasury management arrangements in order to seek to safeguard council funds available for placing on deposit.
- 2.3 Given the obvious public interest in this area the Audit Commission undertook a review of local authority treasury management practices and the findings were published on 26th March 2009, in a document titled 'Risk and Return: English local authorities and the Icelandic banks'.

3. Key Findings of the Review

- 3.1 The key findings of the Audit Commission review and the position currently within the Council are detailed overleaf.

Ref.	Audit Commission Recommendation	Current Position	Proposed Action
1.	<p>Local authorities should set the treasury management framework so that the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved. At the highest level, the organisation should decide whether it has:</p> <ul style="list-style-type: none"> • appetite and capability to be able to manage risk by placing funds with financial institutions; or • no appetite and/or insufficient capability to manage the risk of placing funds in the market, and should instead place funds with the UK government's Debt Management Office. 	<p>The Council has in place a detailed Treasury Management Policy and Strategy Framework which is reported and approved by Cabinet in February and by full Council in March of each year.</p>	<p>Review the Framework to ensure it remains fit for purpose, given new guidance being issued. In advance of this action, regular reviews of lending arrangements have been undertaken to ensure timely action is taken in the short term, as appropriate.</p>
2.	<p>Local authorities should ensure that treasury management policies:</p> <ul style="list-style-type: none"> • follow the revised CIPFA code of practice; • are scrutinised in detail by a specialist committee, usually the audit committee, before being accepted by the authority; and • are monitored regularly. 	<p>The Council's Treasury Management Practices follow current CIPFA guidance and have also been reviewed by both internal and external audit.</p> <p>Diversification of investments has been a key consideration in setting Treasury Management objectives, but the economic downturn has impacted on the council's approach with funds being repatriated to the UK because of the uncertainty and loss of confidence in foreign banks (e.g. Iceland banks failures).</p> <p>The lending list is reviewed on a daily basis in light of credit ratings from all three major credit rating agencies and other available information derived from a variety of sources.</p> <p>The City Treasurer's Department monitor all the Prudential Indicators daily.</p>	<p>Whilst the current CIPFA Code of Practice is observed, draft guidance has recently been issued.</p> <p>In response to the draft guidance the frequency of reports on treasury management to Cabinet is to be increased from twice yearly to quarterly.</p> <p>In addition, it is also proposed to more explicitly cover this area within the remit of the Audit and Governance Committee in relation to the adequacy of, and compliance with, policy.</p>

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3.	Local authorities should ensure elected members receive regular updates on the full range of risks being run.	<p>Treasury Management reports are submitted to and approved by Cabinet twice a year with the overall policy and strategy being approved by full Council. The reports are as follows:</p> <ul style="list-style-type: none"> a) Treasury Management Policy and Annual Strategy Statement reported to Cabinet in February and submitted to Council for approval in March each year; and b) A half yearly report on the actual performance for the previous year and the current year reported to Cabinet in November each year (any policy / strategy changes are reported to Council for approval). <p>All reports outline the range of risks and the proposed policy and strategy take these fully into account.</p>	The move to quarterly reporting to Cabinet in June and January (as outlined above) in addition to the reports in March and November will strengthen the arrangements in this regard.
4.	Local authorities should ensure that the treasury management function is appropriately resourced, commensurate with the risks involved. Staff should have the right skills and have access to information and external advice.	<p>The Council's Treasury Management team is resourced adequately in accordance with the risks involved. This is supplemented by the use of external specialist consultants, whose advice is considered and used to inform the Council's policy and borrowing and lending decisions.</p> <p>The Council has been a member of the CIPFA Treasury Management Forum for a number of years and staff attend quarterly meetings and share best practice.</p> <p>Staff receive appropriate training to ensure that their competences and knowledge is adequate and up to date, including through briefings and attendance at seminars and training events.</p>	CIPFA are currently developing a specific qualification in relation to Treasury Management and the Council will seek to ensure that relevant staff hold this qualification.

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5.	Local authorities should train those elected members of authorities who have accountability for the stewardship of public money so that they are able to scrutinise effectively and be accountable for the treasury management function.	Annual training is available to Members as part of their induction training, which includes treasury management, and as part of the elected member development programme.	<p>The scope of this training is to be reviewed to ensure it remains appropriate.</p> <p>Tailored training will be delivered to the members of the Audit and Governance Committee.</p>
6.	Local authorities should ensure that the full range of options for managing funds is considered, and note that early repayment of loans, or not borrowing money ahead of need, may reduce risks.	The Council only borrows money in advance of need if economically opportune. For example, in January 2006 the Council borrowed 2006/2007's requirement at 3.7% and in November 2006 borrowed 2007/2008's requirement at 4.05% when rates were at their lowest point.	Options will be kept under review in light of changes to the global and domestic financial environments
7.	Local authorities should use the fullest range of information before deciding where to deposit funds	Use is made of a wide range of information in line with best practice, these include: external consultants views, credit ratings from all three main providers, sovereign ratings for each country, Credit Default Swap assessments in conjunction with credit ratings, financial articles in the press and on the internet and intelligence gleaned through contact with other treasury management professionals in other Councils and in the CIPFA Treasury Management Forum.	Information sources to be kept under review to ensure use is made of all available intelligence, so far as practicable.
8.	Local authorities should be clear about the role of external advisers, and recognise that local authorities remain accountable for decisions made.	<p>The Council's treasury management team currently carefully consider and challenge advice received from advisors.</p> <p>The team regularly meet both with and without advisors to discuss issues. Advice is challenged regularly. There is a clear acknowledgement and acceptance that the role remains the Council's responsibility.</p>	Arrangements with external advisors will be kept under review.

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9.	Local authorities should look for economies of scale by sharing resources between authorities or with pension funds, while maintaining separation of those funds.	<p>Given the scale of activity, the treasury management function of the Council warrants in-house specialist staff. The team has an excellent track record. The team now holds treasury management meetings with Newcastle and Gateshead to share knowledge and working practices.</p> <p>Treasury Management is undertaken for a number of external organizations including the Tyne and Wear Fire and Rescue Service.</p>	The position will be kept under review, but the scale of the activity enables significant economies of scale to be achieved currently.

3.2 It can be seen from above that the Council already has arrangements in place that not only meet the current CIPFA guidance but also in large part meet the recommendations of the Audit Commission. Actions are being taken to meet, in full, the recommendations.

4. Recommendations

It is recommended that the Committee:

- Notes the information provided above in relation to the current position within the Council and the recommendations of the Audit Commission report;
- Notes that additional specialist training will be provided to members of the Audit and Governance Committee on Treasury Management;
- Agrees to the inclusion of Treasury Management in its revised Terms of Reference; and
- Agrees to receive further reports on Treasury Management in due course.

Background Papers

Audit Commission – Risk and Return: English local authorities and the Icelandic banks

CIPFA Treasury Management Panel Bulletin: Treasury Management in Local Authorities – Post Icelandic Banks Collapse

