

GOVERNANCE COMMITTEE MEETING: 22ND MARCH 2010

TREASURY MANAGEMENT IN LOCAL AND PUBLIC AUTHORITIES**REPORT OF THE FINANCE OFFICER**

1. Purpose of Report

- 1.1 The purpose of this report is to note that responsibility for scrutiny of Treasury Management is to be undertaken by the Governance Committee in future, and in that role to enable the Committee to scrutinise the Authority's:
- the treasury management policy statement for 2010/2011,
 - the treasury management strategy for 2010/2011, including the annual borrowing and investment strategy.

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, and some of this funding may not be fully recovered.
- 2.2 Sunderland City Council, which performs the treasury management function on behalf of the Authority, did not have any Icelandic banks on its approved lending list and as such had no exposure in relation to these banks.
- 2.3 Given the public interest in this area of public sector finance, the Audit Commission undertook a review of local authority treasury management practices and their findings were published on 26th March 2009, in a document titled 'Risk and Return: English Local Authorities and the Icelandic Banks'. The publication made a set of recommendations designed to strengthen the treasury management function within the public sector.
- 2.4 Following this publication, the Chartered Institute of Public Finance and Accountancy (CIPFA) consulted on and then released a revised Treasury Management Code of Practice with the aim of strengthening treasury management operations and practices across the public sector.

3. The Revised CIPFA Treasury Management Code of Practice 2009

3.1 As previously mentioned, CIPFA has amended their Treasury Management in the Public Services Code of Practice (the Code) and Cross-Sectoral Guidance Notes, which included a revised Treasury Management Policy Statement. It is now a requirement that the Code should be formally adopted by all public authorities; and this Code was formally adopted by the Fire and Rescue Authority on 22nd February 2010. The revised Code is set out in Appendix A and the Committee is asked to review and approve this together with the revised Treasury Management Policy Statement at Appendix B.

The revised Code addresses a number of key areas including the following:

- All Authorities must formally adopt the revised Code and four clauses set out in Appendix A;
- The Treasury Management Strategy Statement should affirm that the effective management and control of risk are prime objectives of the Authority's treasury management activities;
- The Authority's attitude towards risk must be clearly identified within the Treasury Management Strategy Statement which will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out;
- Responsibility for risk management and control lies with the Authority and cannot be delegated to any outside organisation.
- Credit ratings, in respect of investment strategy, should only be used as a starting point when considering risk. Use should also be made of market data and information, quality financial press, information on government support for banks and the credit ratings of that government support.
- Authorities should operate a sound diversification policy in respect of their investments, with high credit quality counterparties, and consideration should be given to setting country, sector and group limits.
- Borrowing in advance of need is only to be permissible when there is a clear business case for doing so i.e. in respect of the current capital programme or to finance future debt maturities.
- The main annual treasury management strategy and policy reports must be approved by the full Authority.
- There needs to be, at a minimum, a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- Each Authority must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
- Treasury management performance and policy setting should be subjected to prior scrutiny before full Authority approval.
- Members should be provided with access to relevant treasury management training.

PREVENTING PROTECTING RESPONDING

- Those charged with governance are also personally responsible for ensuring they have the necessary skills and training in treasury management.
- Responsibility for treasury management activities must be clearly defined within the Authority.
- Officers involved in treasury management must be explicitly required to follow Authority approved treasury management policies and procedures when making investment and borrowing decisions on behalf of the Authority (this will form part of the updated Treasury Management Practices set out in Appendix B (2.1)).

The Treasury Management Strategy Statement (Appendix C) has been prepared in accordance with the revised Code. Accordingly, the Authority's Treasury Management Strategy (TMS) should be approved annually by the full Authority and full Authority will receive, as a minimum, a mid-year TMS report and an annual Treasury Management outturn report for the previous year by no later than the 30th September of the following year. Quarterly reports to the Authority will also be submitted to the Governance Committee. In addition, there will be monitoring reports and regular review by members in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure 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.

The Authority will adopt the following reporting arrangements in accordance with the requirements of the Code:

Area of Responsibility	Authority/ Committee/ Officer	Frequency
Treasury Management Policy Statement (revised)	Full Authority	Adoption of the new code for 2010/2011 and then as required
Treasury Management Strategy / Annual Investment Strategy	Full Authority	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy – mid year report	Full Authority	Mid year
Treasury Management Strategy / Annual Investment Strategy – updates or revisions at other times	Full Authority	As appropriate

Area of Responsibility	Authority/ Committee/ Officer	Frequency
Annual Treasury Management Outturn Report	Full Authority	Annually by 30/9 after the end of the financial year
Treasury Management Monitoring Reports	Finance Officer	Quarterly
Treasury Management Practices	Finance Officer	Annually
Scrutiny of Treasury Management Strategy	Governance Committee	Annually before Full Authority
Scrutiny of Treasury Management Performance	Governance Committee	Quarterly

4. Recommendations

4.1 It is recommended that the Committee:

- 1) notes that responsibility for scrutiny of Treasury Management is to be undertaken by the Governance Committee in future.
- 2) scrutinises:
 - the treasury management policy statement for 2010/2011,
 - the treasury management strategy for 2010/2011, including the annual borrowing and investment strategy as set out in Appendix C.

Background Papers

Tyne and Wear Fire and Rescue Authority Meeting 22nd February 2010 – Capital Programme 2010/2011, including Prudential Indicators and Treasury Management Strategy and Policy.

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

CIPFA Treasury Management in the Public Services Code of Practice (the Code) and Cross-Sectoral Guidance Notes – 2009