

BROMSGROVE DISTRICT COUNCIL

OVERVIEW BOARD

1ST DECEMBER 2009

REVIEW OF TREASURY MANAGEMENT ARRANGEMENTS

Responsible Portfolio Holder	Councillor Geoff Denaro
Responsible Head of Service	Jayne Pickering – Head of Financial Services

1. SUMMARY

- 1.1 To inform Members of the current Treasury Management arrangements in place to ensure the security and effectiveness of Council investments.

2. RECOMMENDATION

- 2.1 Members to note the current arrangements for Treasury Management activities within the Council.

3. BACKGROUND

- 3.1 Treasury Management is defined as : the management of the organisation's 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.
- 3.2 Local authorities manage surplus cash as part of their broader treasury management responsibilities. They operate within a national investment framework in which the Chartered Institute of Public Finance and Accountancy (CIPFA) describes the practices that define good treasury management. Local authorities are currently expected to:
- Define local investment limits and guidelines in an annual investment strategy prior to the start of each financial year and ensure that it is approved by full Council
 - Prepare an annual treasury management strategy and plan prior to the start of each financial year; and
 - Prepare an annual report after the year-end.

- 3.3 Bromsgrove District Council has – in the normal course of business – surplus cash, from which it seeks a return through investment. In 2004 the capital receipt generated from the Large Scale Voluntary Transfer of housing stock to BDHT increased the investments held by the Council and with the rates of return available at that time this investment income became a valuable source of income, which helped reduce the Council Tax burden.
- 3.4 In terms of governance and scrutiny, the Council has always complied with the national framework and (CIPFA) recommended practice. Current arrangements include:
- Treasury Management Strategy (TMS) – the annual TMS, which sets out the planned treasury management approach for the forthcoming year is presented to, and approved by, full Council in March each year (i.e. in advance of the financial year); and
 - Treasury management activity and performance is also incorporated within the Quarterly Integrated Finance and Performance reports presented to Cabinet and the Performance Management Board.

The Council currently complies with this recommended practice.

- 3.5 The world has been experiencing an economic downturn of exceptional proportions in which the origins can be traced back to the US and the sale of risky mortgages. However, by Summer 2007, the problem spread around the world, eventually leading to the collapse of the Icelandic banking system.
- 3.6 At the time, 127 English local authorities had funds in one or more of the Icelandic banks, with deposits totalling more than £954 million.
- 3.7 Many other local authorities – including this Council – did not have any funds invested in Icelandic banks at the time of their collapse. However, the repercussions of the collapse of Icelandic banks raised questions about the stewardship of funds held by local authorities.
- 3.8 In response to the Icelandic banking collapse, the Audit Commission carried out an urgent investigation, which examined local authorities' arrangements for placing and managing cash on deposit. This led to the publication of a national report in March 2009.
- 3.9 One of the key messages highlighted in the Audit Commission's report was that local treasury management arrangements vary and (nationally) the governance and scrutiny of treasury management arrangements specifically is generally poor.

- 3.10 A key recommendation within the Audit Commission's report was that CIPFA should revise and tighten its Treasury Management Code to take account of the findings in their report.
- 3.11 Consequently CIPFA are currently consulting upon a revised Treasury Management Code and guidance notes. The key changes to that Code are as follows:
- Enhancement of the role of scrutiny of treasury management strategies and procedures. It will be the Council's responsibility to identify an appropriate body or individual to have responsibility for the scrutiny function, which may be a committee such as a finance committee or audit committee.
 - Currently, full Council must approve the Treasury Management Strategy. The revised Code will allow approval from a relevant committee. Where approval is not by full Council, the decisions made must be reported to full Council.
 - The revised Code will require Treasury Management training to be available for relevant Council members with responsibility for treasury management; and
 - The existing Code requires the Treasury Management Strategy to be approved prior to the start of the financial year and a report presented after the end of the financial year. The revised Code will also require an interim or mid-year operational report.
- 3.12 Many of the concerns raised in the Audit Commission's report did not apply to this Council. Most notably of course, our approach protected the Council from unnecessary exposure to the Icelandic banking collapse. However officers will address the outcomes of the consultation to improve arrangements further at Bromsgrove District Council.

4. CURRENT ARRANGEMENTS AT BROMSGROVE

- 4.1 The current funds are managed in house with one of the finance officers undertaking this responsibility as part of a wider role. To ensure specialist advice and support is available for our investment purposes the Council has a contract with an external advisor "Arlingclose" who provide bespoke advice to officers to enable informed judgements to be made on placing investments with organisations. Members will be aware that we were advised as far back as May 2006 to withdraw any funds invested in Icelandic Banks following advice from Arlingclose due to their concerns as to the financial infrastructure of these institutions.
- 4.2 Daily schedules on ratings for individual banking institutions are received from Arlingclose by a number of officers in finance. In addition a weekly

update on movements in rates and economic changes are available. Regular meetings are held to discuss the opportunities for investment and revisions to policy and strategy together with Arlingclose providing training to officers in legislation changes and the development of the annual strategy in conjunction with Council officers.

4.3 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Credit risk is minimised by use of a specified list of investment counterparty criteria and by limiting the amount invested with each institution. The Council receives credit rating details from its Treasury Management advisers on a daily basis and any counterparty falling below the criteria is removed from the list.

The Council has not had and does not expect any default losses by any of its counterparties in relation to investments.

Due to market conditions the Council has reduced its credit risk for all new investments by only investing in the highest rated instruments and has shortened the allowable length of investments in order to reduce risk.

The credit criteria in respect of financial assets managed in-house by the Council are as follows:

Financial Asset Category	Criteria (Fitch ratings)	Maximum Investment
Deposits with banks	Short Term: F1+/F1 Support: 1,2,3 Long Term: minimum 'AA-' /A	£3million/£2million
Deposits with building societies	Short Term: F1+/F1 Support: 1,2,3 Long Term: minimum 'AA-' /A	£3million/£2million
Deposits with Debt Management Account – Deposit Facility (DMADF)		£no upper limit *

Fitch Ratings is an international credit rating agency (one of three nationally recognised rating agencies alongside Moody's and Standard & Poor's). Fitch Rating's long-term credit ratings are set up along a scale from 'AAA' to 'D' where 'AAA' designates the best quality companies, reliable and stable through to 'D' where the company has defaulted on obligations and Fitch believes that it will generally default on all or most of its obligations. Fitch's short term ratings indicate the potential level of default within a 12 month period. F1+ is the best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment

At 30 September 2009 short term investments comprised:

	31 March 09 £	30 Sept 09 £
Deposits with Banks/Building Societies	8,425	10,550
Deposits with Debt Management Office (DMADF)*	5,500	5,000
Total	13,925	15,550

Investments with the DMADF are guaranteed by HM Treasury. Following advice from the Council's treasury advisors, from a credit perspective no upper limit was imposed on investments with the DMADF.

4.4 Income from investments

An investment income target of £166k has been set for 2009/10 using a projected return rate of 1.5 – 1.75 %. During the year bank base rates have dropped to 0.5% with little expectation of any upward increase in rates in the near future.

In the first half of 2009/10 the Council received income from investments of £43k. In order to maximise available returns within our risk criteria the Council is currently working with our treasury advisors with the view to placing a proportion of our investments in bonds issued by Multilateral Development Banks. These bonds meet the Government's criteria for specified investments (i.e. offering high security and high liquidity)

4.5 In addition to the external advice in relation to the choice of investments there are a number of robust internal control arrangements in place within the Council which are set out within the Treasury Management Principles (TMPs) which are regularly reviewed to ensure the most effective and secure controls are in place.

4.6 The Principles include the following controls that are adhered to by officers when any dealing / investments are being made :

- Daily cash flow monitoring
- Ensuring investments are only placed with the approved counter part list (very limited at present time)
- Adherence and recognition of the Councils money laundering policy

- Secure password protected access to nominated officers in finance to place investments
- Approved limits of investment levels with individual institutions
- Separate authorisation of investments from senior accountants
- Monthly reconciliations of the payments made and investments against the bank account.
- Quarterly monitoring of investment portfolio to Cabinet and Performance Management Board

5. FINANCIAL IMPLICATIONS

5.1 None other than those already included in this report.

6. LEGAL IMPLICATIONS

6.1 The Council has a statutory responsibility under Section 151 of the Local Government Act 1972 to 'make arrangements for the proper administration of their financial affairs this includes securing effective arrangements for treasury management.

7. COUNCIL OBJECTIVES

6.1 The effective management of our investments ensures the funding is available for the delivery of all of the Council objectives

8. RISK MANAGEMENT

8.1 The effective controls we have in place ensure the balance between risk and generating a level of investment income back to the Council.

9. CUSTOMER IMPLICATIONS

9.1 Effective and secure treasury management arrangements ensure that the investments made

10. EQUALITIES AND DIVERSITY IMPLICATIONS

10.1 There are no equalities and diversity issues arising from this report.

11. VALUE FOR MONEY IMPLICATIONS

11.1 Effective management of our investments within a robust framework support the Councils delivery of value for money within a low risk environment.

12. OTHER IMPLICATIONS

Procurement Issues: None

Personnel Implications: None
Governance/Performance Management: None
Community Safety including Section 17 of Crime and Disorder Act 1998: None
Policy: None
Environmental: None

13. OTHERS CONSULTED ON THE REPORT

Portfolio Holder	
Chief Executive	
Executive Director - Partnerships and Projects	
Executive Director – Services	
Assistant Chief Executive	
Head of Service	
Head of Financial Services	
Head of Legal, Equalities & Democratic Services	
Head of Organisational Development & HR	
Corporate Procurement Team	

14. WARDS AFFECTED

15. APPENDICES

None

16. BACKGROUND PAPERS

Treasury Management Strategy March 2009
Quarterly integrated finance reports to Cabinet & PMB

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