

BROMSGROVE DISTRICT COUNCIL

CABINET

3rd MARCH 2010

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2010-11 TO 2012-13

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

1. SUMMARY

- 1.1 A strategy statement for the treasury management and investments in relation to Bromsgrove District Council to comply with the Local Government Act 2003 and to ensure the Council demonstrates accountability and effectiveness in the management of its funds.

2. RECOMMENDATION

- 2.1 Cabinet recommend to Full Council approval of the strategy and prudential indicators shown at Appendix A and B.
- 2.2 That Cabinet notes that the Audit Board will undertake additional scrutiny of the Strategy during 2010/11 to ensure the Council's investments are being managed in a risk free environment.
- 2.3 That Cabinet recommend to Full Council the approval of the Authorised Limit for borrowing at £6,500,000 if required.
- 2.4 That Cabinet recommend to Full Council the approval of the maximum level of investment to be held within each organisation (i.e. bank or building society) as detailed at £3m subject to market conditions.
- 2.5 That Cabinet recommend to Full Council the approval of unlimited level for investment in Debt Management Account Deposit Facility (DMADF).
- 2.6 That Cabinet notes that training for Treasury management has been identified and will be incorporated within the Modern Councillor Programme (Training and Development Events for Members) prioritised with all other needs.
- 2.7 That Cabinet recommend to Full Council the approval of the Treasury Management Policy statement shown at Appendix F.

3. BACKGROUND

- 3.1 As members will be aware 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.

- 3.2 At the time, 127 English local authorities had funds in one or more of the Icelandic banks, with deposits totalling more than £954 million.
- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 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.
- 3.7 Consequently CIPFA has revised its 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. It is proposed that this be the Audit Board.
 - 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. It is proposed that the responsibility remains with 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.
- 3.8 In addition the Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next

three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.9 CIPFA has defined Treasury Management as:

“the management of the organisation's investments, 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.”

3.10 The Council 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. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

4. FINANCIAL IMPLICATIONS

4.1 The financial implications are contained within the body of the strategy statement at Appendix A.

5. LEGAL IMPLICATIONS

5.1 This is a statutory report under the Local Government Act 2003.

6. CORPORATE OBJECTIVES

6.1 Approval of this strategy statement will ensure that the Council invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment.

7. RISK MANAGEMENT

7.1 The main risks associated with the details included in this report are:

- *Poor Use of Resources scoring*
- *Poor investment return*
- *Loss of capital due to investing with inappropriate organisations*

7.2 These risks are being managed as follows:

- Poor Use of Resources scoring

Risk Register: *Corporate*

Key Objective Ref No: 1

Key Objective: *Effective Financial Management*

7.3 The risks associated with the delivery of maximum return within a secure environment have now been addressed in the risk register. The risks and controls in place to mitigate them have been assessed and detailed within the register.

7.4 Current controls to reduce the risk of loss of capital and poor return on investment include:

- Monthly reports from investment managers on performance of funds
- Quarterly reporting to Performance Management Board and Cabinet of financial position on investments
- Monthly updates from treasury advisors in respect of level of status for organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications

8. CUSTOMER IMPLICATIONS

8.1 The effective management of treasury operations will ensure that the management of the public funds is monitored and reviewed in a complaint way to satisfy the public of the use of their financial resources.

9. EQUALITIES AND DIVERSITY IMPLICATIONS

9.1 None as a direct result of this strategy

10. VALUE FOR MONEY IMPLICATIONS

10.1 The robust framework that is in place to ensure investments maximise return within a secure environment support the demonstration that the Council is providing value for money is the use of its funds available.

11. 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

12. **OTHERS CONSULTED ON THE REPORT**

Portfolio Holder	No
Chief Executive	No
Executive Director (Partnerships and Projects)	No
Executive Director (Services)	No
Assistant Chief Executive	No
Head of Financial Services	Yes
Head of Legal, Equalities & Democratic Services	No
Head of Organisational Development & HR	No
Corporate Procurement Team	No

13. **WARDS AFFECTED**

All wards

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