

PRINCIPAL SCRUTINY COMMITTEE

12 July 2010

CABINET

15 September 2010

TREASURY MANAGEMENT INFORMAL SCRUTINY GROUP

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

[PS386](#): Treasury Management Informal Scrutiny Group: Terms of Reference.

EXECUTIVE SUMMARY:

The Treasury Management Informal Scrutiny Group has completed its review of the management processes and overview provided by Members, with regard to the Council making large investments in undertaking Treasury Management. No significant matters have been identified. Overall procedures are considered to be satisfactory although some recommendations are made for enhancement.

RECOMMENDATION:

To Principal Scrutiny Committee:

1. That the Committee consider the Report of the Informal Scrutiny Group and ask Cabinet to consider the recommendations as set out in paragraph 4.

To Cabinet:

2. That the Cabinet endorse the recommendations, as set out in paragraph 4.

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## TREASURY MANAGEMENT INFORMAL SCRUTINY GROUP

### Report of Head of Finance

#### 1 Introduction

- 1.1 At its meeting on [22 June 2009](#) Principal Scrutiny Committee agreed to appoint an Informal Scrutiny Group (ISG) to investigate the management processes and overview provided by Members, with regard to the Council making large investments in undertaking Treasury Management.

- 1.2 The membership of the Group was as follows:

Councillors: Chamberlain, Collin, Learney, Mitchell, Tait, Wright.

Officer Support: Chief Executive, & Head of Finance.

At the first meeting Cllr Chamberlain was appointed Chairman.

- 1.3 The Terms of Reference for the Group were agreed at the Principal Scrutiny Committee meeting in September 2009 ([PS386](#) refers), as follows:

“To consider and make recommendations concerning the arrangements the City Council makes with regard to investments made to efficiently manage treasury resources, and in particular to consider:

(i) The scope and adequacy of the external advice which the Council seeks and receives on treasury management matters;

(ii) The scope and adequacy of the Council’s Treasury Management Strategy and Procedures, with particular regard to their consistency with advice from the Audit Commission and CIPFA;

(iii) The procedures by which investment decisions are taken, and their compliance with advice from the Audit Commission and CIPFA; and

(iv) The appropriateness of arrangements made for Members – the relevant Portfolio Holder, Cabinet, Principal Scrutiny and Council – to oversee the Treasury Management policies and procedures followed,

recognising that it is not the role of Members to become involved in specific investment decisions.

In undertaking this inquiry, the ISG will have regard to arrangements in place during September 2008, when investment was made in the Heritable Bank plc, and the appropriateness of changes to strategy and procedures made subsequently.”

## 2 Procedure

The Group met on four occasions and considered the following evidence:

- a) A presentation by the Principal Financial Accountant – Alan Goard, on the investment procedures in place at September 2008 and the procedures in place at 1 April 2010. This included an overview to provide the context for the Council’s treasury management decisions; the applicable regulatory framework; a “walk through” of an investment decision (in 2008 and now), and examples of the monitoring reports in place.
- b) A copy of the most recent CIPFA guidance on Treasury Management was made available to group members. They were also provided with examples of advice being received from the Council’s Treasury Management Advisers.
- c) A presentation and discussion forum with the Council’s Treasury Management Advisers – Dan Willson and Ross Proudfoot from Butlers. This included an overview of the services provided to the Council covering; capital financing; housing expertise; economic and interest rate forecasting; counterparty management; investment advice, and a risk benchmarking tool for Security, Liquidity, and Yield (SLY).
- d) A discussion paper on the use of external fund managers.
- e) Possible other witnesses considered and discounted were: the Audit Commission and the Portfolio holder for Finance and Efficiency (did not stand for re-election).

## 3 Findings

These are presented against each element of the Terms of Reference.

### 3.1 *(i) The scope and adequacy of the external advice which the Council seeks and receives on treasury management matters*

It was noted that a range of advice was already being provided and that Butlers are planning to offer a wider range of services in the near future.

The Council's requirements for support will change in the future, because it is no longer debt free and will therefore need to develop its borrowing strategy. There will also be implications if the proposed changes to housing financing are implemented.

3.2 *(ii) The scope and adequacy of the Council's Treasury Management Strategy and Procedures, with particular regard to their consistency with advice from the Audit Commission and CIPFA.*

The Council's procedures are fully compliant with relevant guidance and advice, with the exception that there is not a separation of duties between dealing, the transmission of funds and the recording and administering of treasury management decisions (as recommended in the CIPFA guidance).

3.3 *(iii) The procedures by which investment decisions are taken, and their compliance with advice from the Audit Commission and CIPFA.*

Whilst the Council's procedures are compliant with all relevant advice and guidance (with the exception of separation of duties explained at 3.2 above) the group identified the following issues for further consideration:

- a) Sovereign risk of parent companies – how can this be mitigated?
- b) Banking arrangements that may distort portfolio spread.
- c) Daytime exposure with current account – how can this be minimised?
- d) Fraud prevention measures – can they be improved?
- e) Current account provider – are we getting the best from them?
- f) Counterparty list – what are the broader considerations, and how do we ensure they are taken into account?
- g) Deal progress sheet to expressly say – “checked institution” (*actioned*).

It was not considered appropriate at this time to pursue the use of external fund managers.

3.4 *(iv) The appropriateness of arrangements made for Members – the relevant Portfolio Holder, Cabinet, Principal Scrutiny and Council – to oversee the Treasury Management policies and procedures followed, recognising that it is not the role of Members to become involved in specific investment decisions*

It was noted that the new guidance required an additional report to the Council commencing in 2010/11; making 3 formal annual reports:

- an annual Treasury Management Strategy, in advance of the year
- a mid year review, and
- an annual Stewardship review after the year end.

It was further noted that the Council had nominated the Principal Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

It was considered whether a performance target of a minimum interest percentage should be introduced and agreed that this would not be appropriate.

#### 4 Recommendations

Having completed their review the Informal Scrutiny Group considered the procedures to be generally acceptable, and recommend the following actions:

- a) That the contract for Treasury Management Services is tendered, when the current agreement expires in December 2010, and that the specification for the services required for Treasury Management Advice be agreed by the Portfolio Holder for Transformation and Resources.
- b) That the Head of Finance puts in place procedures for the separation of duties between dealing, the transmission of funds and the recording and administering of treasury management decisions (as recommended in the CIPFA guidance).
- c) That the items identified in paragraph 3.3 above be followed up by the Head of Finance and reported to the Portfolio Holder for Transformation and Resources.
- d) That appropriate training is organised for members in advance of the approval of the annual Treasury Management Strategy for 2011/12.
- e) That a suitable extract of the Butlers risk benchmarking tool for Security, Liquidity, and Yield be incorporated into the monthly finance monitoring report to the Leaders Board.

#### OTHER CONSIDERATIONS

##### 5 SUSTAINABLE COMMUNITY STRATEGY AND CORPORATE BUSINESS PLAN (RELEVANCE TO):

- 5.1 Effective treasury management procedures support good governance and probity in managing the taxpayers' money.

## 6 RESOURCE IMPLICATIONS:

- 6.1 The current annual budget for treasury management advice is relatively low (below £10k); any increase to the services required will inevitably result in a change in the costs.
- 6.2 General Fund Interest income budget for 2010/11 is £247,000 – interest rate sensitivity is +/- 0.25% = c. £53,000.

## 7 RISK MANAGEMENT ISSUES

- 7.1 This inquiry considered a major aspect of how the Council seeks to manage risk to its investments, and how effective the response has been to an escalation in risk with recent global financial turmoil.
- 7.2 The application of the Prudential code supports the management of risk in relation to the Council's Treasury Management Practices and TMP1 sets out specifically how the Council manages risk in its treasury management operations.