

# Audit Committee

Item No.....

<b>Report title:</b>	<b>Governance, Control and Risk Management of Treasury Management</b>
<b>Date of meeting:</b>	<b>18 April 2019</b>
<b>Responsible Chief Officer:</b>	<b>Executive Director of Finance and Commercial Services</b>
<b>Strategic impact</b>  Treasury management in local authorities is tightly regulated. Specific policy and operational guidance on governance, control and risk management is contained within professional codes of practice, with overarching statutory and regulatory guidance drafted by the Government.	

## Executive summary

The Audit Committee's Terms of Reference state that it is responsible for 'considering the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensuring that they meet best practice.'

The purpose of this report is to provide assurance to the Committee as to the adequacy and effectiveness of these arrangements.

**Recommendation: Audit Committee is requested to consider and agree this report.**

## 1 Introduction

- 1.1 The County Council's treasury management operations form an important part of the overall financial management of the authority. These operations are designed to comply with statutory and regulatory requirements, including appropriate Member scrutiny and reporting.
- 1.2 The Audit Committee is requested to consider and agree this report which provides assurance to the Committee as to the adequacy and effectiveness of the governance, control and risk management arrangements for Treasury Management.

## 2 Evidence

- 2.1 An “Annual Investment and Treasury Strategy 2018-19” was presented to Policy and Resources Committee and then County Council in January/February 2018, to coincide with the County Council’s annual budget proposals. Prior to consideration by Policy and Resources Committee, the Strategy was discussed and approved by the Treasury Management Panel.
- 2.2 The Annual Strategy report provided economic forecasts, the Council’s borrowing strategy, criteria for choosing investment counterparties, monetary limits and deposit periods, and capital and treasury management prudential indicators.
- 2.3 During financial year 2018-19, the County Council met the reporting requirements of the CIPFA Treasury Management Code by receiving:
- annual report following the year-end describing activity (County Council 23 July 2018 (supplementary agenda))
  - a mid-year treasury update report (County Council 10 December 2018)
  - an annual treasury strategy in advance of the 2019-20 financial year (County Council 11 February 2019).

All reports to County Council listed above were considered by the preceding Policy and Resources Committee. To aid transparency these reports were presented as agenda items and reports in their own right, rather than as appendices to other reports.

- 2.4 Following this financial year-end, an “Annual Treasury Management Report 2018-19” will be presented to the Treasury Management Panel in May 2019, Cabinet on 10 June 2019, and the County Council on 22 July 2019 (subject to confirmation of Cabinet and County Council agendas).
- 2.5 The Annual Report reviews treasury activities undertaken in the previous 12 months (April to March) and contains details of performance against key treasury management indicators and budgets. It also provides confirmation that all monies invested during the year was in accordance with the approved investment criteria.
- 2.6 The County Council has integrated the governance requirements of the CIPFA Treasury Management Code and the MHCLG Investment Guidelines into its Treasury Management reports. As a result, a summary of non-treasury investments (including loans to subsidiaries) has also been included to address general concerns raised by both CIPFA and MHCLG, along with a short commentary on the proportionality of these investments in the context of the Council’s capital programme and revenue budgets.
- 2.7 Through 2018-19, the Treasury Management Panel provided scrutiny of treasury activity. Reports to Policy and Resources Committee are amended where appropriate to incorporate comments or views expressed by the Panel or the Committee. For example, the May 2018 outturn report for 2017-18

was amended to include graphs and ratios suggested at the previous January Policy and Resources Committee meeting. There are no outstanding actions or recommendations from meetings of the Panel during 2018-19.

- 2.8 The Panel received training in January 2019 in the form of a presentation from Link Asset Services, the Council's external treasury advisors. This covered the general economic and treasury environment, and a commentary on the Council's treasury activities.
- 2.9 In addition to the specific treasury management reports, throughout 2018-19 Policy and Resources Committee received regular treasury management summaries within regular Finance Monitoring reports. These short reports provided key treasury management information such as the levels of cash balances and details of new borrowing.
- 2.10 The County Council's external auditor (Ernst & Young) performs audit tests in order to inform their annual audit of the Council's Statement of Accounts. For example, they seek independent verification of material investment and debt balances.
- 2.11 Transaction testing of key controls is supplemented by a triennial full internal audit review, supplemented by further work if significant changes to systems or processes are identified. A full triennial internal audit review was undertaken as part of the 2016-17 annual audit plan, with a final report issued on 23 August 2017. No adverse findings were identified as part of the audit.

### **3 Financial Implications**

- 3.1 The expenditure and income relating to treasury management activities falls within the parameters of the Annual Budget agreed by the Council.

### **4 Issues, risks and innovation**

#### **4.1. Changes to Codes of Practice**

Non-treasury investments are classed as capital expenditure and approved and monitored as part of the capital programme. In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focussed on non-treasury investments including the purchase of property with a view to generating income, or projects where cash balances are invested for policy purposes.

Although full implementation of the new Code was not required until 2019-20, a list of non-treasury investments was added to the 2017-18 outturn report and this information has been incorporated as a standing item in Treasury Management papers.

The new Code has also made some relatively minor amendments to recommended Prudential Indicators, which have been incorporated into the 2019-20 Treasury Management Strategy.

#### **4.2. Risk management**

The Council's Financial Regulation and Procedures have specific sections dedicated to Treasury Management (sections 4.7 and C7 respectively). They set out the key controls and specific responsibilities of the Statutory Finance Officer (Executive Director of Finance and Commercial Services) and the other Chief Officers. The regulations and procedures are reviewed and updated annually.

The Finance Management Team is responsible for maintaining a departmental risk register. There are currently no "High" risks identified relating to Treasury Management activities.

### **5 Background**

- 5.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) defines treasury management activities as:

*"The management of the local authority's borrowing, investments and 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."*

- 5.2 Treasury management in local authorities is tightly regulated. Specific policy and operational guidance is contained in professional codes of practice, with overarching statutory and regulatory guidance drafted by the Government.
- 5.3 This framework of regulation and codes of practice provides the basis for the governance and reporting of treasury management activities in local authorities.
- 5.4 Statutory and regulatory guidance is provided by the Local Government Act 2003 and the Government's Investment Guidelines 2010 (Revised). Codes of best practice include the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and the Prudential Code. The Council adheres to all these in the way it manages its treasury services.
- 5.5 CIPFA's Code of Practice for Treasury Management in the Public Services (the Code) recommends the adoption of four key clauses as part of financial regulations and procedures. CIPFA's latest version of the Code was released in December 2017. The specific clauses and policy statements remain unchanged from the 2011 Code, and in turn the 2009 Code which the County Council adopted in February 2010 as part of its financial regulations

and procedures. These recommended clauses are incorporated in Section 4.7 of the Council's Financial Regulations.

- 5.6 Complementary to the CIPFA Treasury Management Code, the Government's Investment Guidelines requires the full Council to approve an Annual Investment Strategy.
- 5.7 In December 2008, following the collapse of Icelandic banks in October 2008, Cabinet approved the establishment of a cross-party Member Panel with specific responsibilities for Treasury Management. The Panel's responsibilities include:
- Consider and comment on the draft Annual Investment and Treasury Strategy prior to its submission to Cabinet and full Council.
  - Receive detailed reports on the Council's treasury management activity, including reports on any proposed changes to the criteria for "high" credit rated institutions in which investments are made and the lending limits assigned to different counterparties.
  - Receive presentations and reports from the Council's external Treasury Management advisers.
  - Consider the draft Treasury Management Annual Report and Mid-Year Monitoring Report prior to their submission to Cabinet and full Council.
- 5.8 In addition, the Audit Committee's Terms of Reference state that it is responsible for 'considering the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensuring that they meet best practice.'

## Officer Contact

If you have any questions about matters contained in this paper please get in touch with:

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