

Audit Committee

Item No.....

Report title:	Governance, Control and Risk Management of Treasury Management
Date of meeting:	21 September 2017
Responsible Chief Officer:	Executive Director of Finance and Commercial Services
Strategic impact Treasury management in local authorities is extremely well 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. This report concludes that the County Council's Treasury Management operations are fully compliant with the statutory and regulatory framework and recognised best practice.	

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 comment on this report.

1. Proposal

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

2.3 During financial year 2016-17, the County Council met the reporting requirements of the CIPFA Treasury Management Code by receiving:

- an annual treasury strategy in advance of the year (County Council 22 February 2016)
- a mid-year treasury update report (County Council 12 December 2016)
- annual report following the year-end describing activity (County Council 24 July 2017).

To aid transparency these reports were presented to Policy and Resources Committee and Council as agenda items in their own right, rather than as appendices to other financial reports.

2.4 The County Council has integrated the governance requirements of the CIPFA Treasury Management Code and the Government's Investment Guidelines into a single report. The "Annual Investment and Treasury Strategy 2016-17" was presented to Policy and Resources and then Council in February 2016 at the same time as the County Council's annual budget proposals. Prior to consideration by Policy and Resources, the Strategy was examined in detail by the Treasury Management Panel.

2.5 The Annual Strategy report provided economic forecasts, the criteria for choosing investment counterparties, monetary limits and deposit periods, the strategy for long term borrowing, treasury management prudential indicators and leasing activity.

2.6 A mid-year monitoring report on treasury activities was also produced for Policy and Resources Committee and Council.

2.7 After financial year-end, an annual report was produced. The "Annual Treasury Management Report 2016-17" was presented to the Policy and Resources Committee and the County Council in July 2017. On this occasion, due to the local elections, there was no Treasury Management Panel to consider the report in advance. However, in the normal course of events the Annual Treasury Management Reports is considered by the panel in May.

2.8 The Annual Report reviewed treasury activities undertaken in the previous 12 months (April 2016 to March 2017) and contained details of performance against key treasury management indicators and budgets. It also provided confirmation that all monies invested during the year was in accordance with the approved investment criteria.

2.9 In addition, throughout 2016-17, Policy and Resources Committee received regular treasury management summaries. These reports provided performance information in relation to key treasury management indicators such as the amount of cash balances and other relevant information such as changes to base rates.

2.10 During 2016-17, the Treasury Management Panel provided robust scrutiny of treasury activity. Reports to Policy and Resources Committee are amended where appropriate to incorporate comments or views expressed by the Panel, with other action being pursued by officers and reported back to Panel members. There are no outstanding actions/recommendations from meetings of the Panel during 2016-17.

- 2.11 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.
- 2.12 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. No 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. Under section 17 of the Crime and Disorder Act 1998, the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 4.2. Internal Controls, including those assessed under the use of resources, help by aiming to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

4.3. Risk implications

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 a Council's cash flows, its banking, money market and capital market transactions; the effective management 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 extremely well 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 November 2011. The specific clauses and policy statements remained unchanged from the 2009 Code which the County Council adopted in February 2010 as part of its financial regulations and procedures. Two of the clauses relate to governance and reporting arrangements, as follows:
- that the County Council delegates responsibility for the implementation of its treasury management policies and practices to the Council's Cabinet (now Policy and Resources Committee), and for the execution and administration of treasury management decisions to the Council's Executive Director of Finance and Commercial Services.
 - that the County Council receives reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- 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. Following the collapse of the Icelandic banks in October 2008, The County Council's then Cabinet considered the governance and reporting arrangements in respect of treasury management. In December 2008, Cabinet approved the establishment of a cross-party Member Panel with specific responsibilities for Treasury Management. The Panel's responsibilities included:
- Monitor recovery of the Council's Icelandic investments.
 - Consider and comment on the draft Annual Investment and Treasury Strategy prior to its submission to the then Cabinet (now Policy and Resources Committee) 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 the then Cabinet (now Policy and Resources Committee) 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.'
- 5.9. 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 with regard to Treasury Management. The regulations and procedures are reviewed and updated annually.

Officer Contact

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