

Audit Committee

Item No.....

Report title:	Governance, Control and Risk Management of Treasury Management
Date of meeting:	31 July 2018
Responsible Chief Officer:	Executive Director of Finance and Commercial Services
Strategic impact 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 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 2017-18, 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 20 February 2017)

- a mid-year treasury update report (County Council 11 December 2017)
- annual report following the year-end describing activity (County Council 23 July 2018 (supplementary agenda)).

All reports to County Council had been 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 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 2017-18" was presented to Policy and Resources and then Council in January/February 2017 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 the financial year-end, an "Annual Treasury Management Report 2017-18" was presented to the Treasury Management Panel in May 2018, Policy and Resources Committee in June 2018, and the County Council in July 2018. 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 2017 to March 2018) 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 2017-18, Policy and Resources Committee received regular treasury management summaries. These short reports provided key treasury management information such as the levels of cash balances and details of new borrowing.
- 2.10 Through 2017-18, 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. The 2017-18 outturn report has been amended to include graphs and ratios suggested at the January P&R meeting. There are no outstanding actions/recommendations from meetings of the Panel during 2017-18.
- 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 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 is not required until 2019-20, a list of non-treasury investments was added to the 2017-18 outturn report with a view to incorporating these non-treasury management investments into future Treasury Management strategies.

The new Code has also made some relatively minor amendments to recommended Prudential Indicators, which will be 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 with regard to Treasury Management. 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 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 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 remained 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, Cabinet approved the establishment of a cross-party Member Panel with specific responsibilities for Treasury Management. This followed the collapse of the Icelandic banks in October 2008. As well as monitoring recovery of the Council's Icelandic Investments, the Panel's responsibilities include:
- 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.'

Officer Contact

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

Officer Name: Howard Jones – Corporate Accounting Manager

Tel No: 01603 222832

Email address: howard.jones@norfolk.gov.uk



If you need this report in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 18001 0344 800 8020 (textphone) and we will do our best to help.