

Report of Director of Resources

Report to Corporate Governance and Audit Committee

Date: 23rd January 2012

Subject: Treasury Management Governance Framework

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The credit crunch and the Icelandic crises resulted in Cipfa issuing a revised Treasury Management Code and Guidance Notes and a revised Prudential Code. This report confirms that the changes made to the Cipfa codes have been incorporated into the working practices and policies of treasury management and the governance framework.
2. Whilst there have been some changes to the codes, the review indicates that the existing codes have worked as intended throughout the credit crunch.
3. A further revision to the codes has just been issued and the changes will be adopted in the Treasury Management Strategy 2012 report to Executive Board.

Recommendations

Members are asked to :

4. Note the delegations in relation to Treasury Management.
5. Note that the requirements of the revised Cipfa Code of Practice and Guidance Notes have been incorporated into Treasury Management practices and policies and that the Prudential Code has been adopted.

1 Purpose of this report

- 1.1 This report outlines the governance framework for the management of the Council's Treasury Management (TM) function. This report also reviews compliance with the revised Chartered Institute of Public Finance and Accountancy (Cipfa) code of practice on treasury management and guidance notes and a revised prudential code. These were issued in November 2009.

2 Background information

- 2.1 The operation of the treasury management is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Cipfa Prudential Code for Capital Finance in Local Authorities as updated in November 2009.
- 2.2 TM is responsible for the Housing Revenue Account and General Fund long term debt in the region of £1.5bn and investments that currently stand at around £30m. It also manages the cash flow requirements of the Council.
- 2.3 The background to this report dates back to the start of the credit crisis in 2007 when the French Bank BNP Paribas closed two of its mortgage backed securities fund because they could not value them. As a result credit stopped flowing in the money markets. The following 12 months saw banks suffering huge losses, and national Governments taking coordinated action to intervene in the money markets. This did not stem the problem as in October 2008 Lehman's Brothers went into administration. Weeks later the Icelandic banks folded. The collapse of the Icelandic banks in 2008 has thrown the treasury management function into the spotlight. Local Authorities collectively had £1bn on deposit with Icelandic banks which immediately became frozen. Leeds did not have any deposits with the Icelandic Banks.
- 2.4 Following the collapse of the Icelandic banks Corporate Governance and Audit Committee (CGA) were presented with a report on 12th November 2009 on the recommendations of three reports prepared by the Communities and Local Government Select Committee, the Audit Commission and Cipfa. Following these reports Cipfa issued a revised Treasury Management Code of Practice and guidance notes and a revised Prudential Code.

3 Main issues

Scheme of Delegation

- 3.1 The Council scheme of delegation is shown in Appendix A and formally documents the decision making framework under which treasury management operates. Members will recall that the CGA agreed that the overseeing role for the treasury management function falls to the CGA.

Key changes

- 3.2 The main conclusions from the Icelandic crisis show the national treasury management framework operates on the whole as expected. There are however lessons to be learned that have resulted in a revised Cipfa Treasury Management Code of Practice, guidance notes and the Prudential Code. Appendix B shows the main changes to the treasury management codes and the Council's compliance with these changes. TM is fully compliant with the recommended changes and many of these recommendations were already incorporated into the treasury management practices.

- 3.3 The revised CIPFA Treasury Management Code Of Practice also emphasised a number of key areas that treasury management should follow. These were presented to Executive Board on 12th February 2010 in the Treasury Management Strategy 2010/11 and are shown again in Appendix C. The Treasury management strategy for 2011/12 was presented to Executive Board on 11/02/11 and included a further revision to the Treasury Management Policy Statement.
- 3.4 Internal Audit has undertaken a review on the 2010/11 TM function and has provided substantial assurance on both the control environment and compliance.
- 3.5 CIPFA have issued a revised Prudential Code, Treasury Management Code of Practice and Guidance Notes. All three were published on 15 November 2011 and an initial review highlights the following changes below:
- legislative frameworks are updated (now including Northern Ireland);
 - the Bribery Act 2010 is now referred to where appropriate;
 - a small section on the use of derivatives (if it is deemed lawful);
 - A technical change to the reporting of loan maturities.
 - the changes arising from HRA self financing reform in England are included.
- 3.6 A full review of the changes to the codes will now take place and the updated codes will be reflected in the Treasury Management Strategy for 2012 Report to Executive Board in February 2012.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 CIPFA have consulted with all local authorities prior to the issue of the revised codes and the Council has participated in this consultation. There has been no further consultation in relation to this report.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This report does not have any direct equality and diversity/cohesion and integration issues.

4.3 Council Policies and City Priorities

- 4.3.1 The execution of treasury strategy enables cash funding to be raised and managed in the most efficient manner and this supports revenue and capital spend in line with City Priority Plans and the Council Business Plan.

4.4 Resources and Value for Money

- 4.4.1 Execution of treasury strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 11th February 2011 and updated on 02/11/11.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The legislative framework which governs treasury management is outlined in section 2.1. This framework includes compliance with the Cipfa Treasury management code of practice and guidance notes and the prudential code.
- 4.5.2 The main changes to the revised Cipfa Treasury Management Code of Practice and guidance notes are highlighted in section 3 and have been adopted.
- 4.5.3 Cipfa have also issued a revised Prudential Code which primarily covers borrowing and prudential indicators. The revised code has also been adopted by the Council.
- 4.5.4 There are no legal or access to information issues arising from this report. The report is not subject to call in.

4.6 Risk Management

- 4.6.1 As set out in the treasury management policy statement, treasury management activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.
- 4.6.2 By complying with and adopting the Cipfa Treasury Management Code of Practice and the Prudential Code, assurance is given that arrangements are in place to manage risks effectively.

5 Conclusions

- 5.1 A revised Cipfa Treasury Management Code of Practice and Prudential Code have been formally adopted by the Council. This report confirms that the Council is complying within the revised codes and the internal audit of the function provides substantial assurance on control and compliance.

6 Recommendations



Members are asked to:

- 6.1 Note the delegations in respect to treasury management as outlined in Appendix A
- 6.2 Note the assurance that Treasury Management has adopted and is complying with the revised Cipfa Code of Practice and guidance notes and the Prudential Code.

7 Background documents

- 7.1 Treasury Strategy 2010/11 - Executive Board 12/02/10
- 7.2 Treasury Strategy 2011/12 – Executive Board 11/02/11
- 7.3 Treasury Strategy update 2011/12 – Executive Board 02/11/11

DELEGATIONS IN RELATION TO TREASURY MANAGEMENT

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Borrowing limits	Treasury Management Strategy	Adequacy of treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
 DELEGATIONS TO OFFICERS			
DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED	
Officer delegation scheme (Executive Functions) (p186)	Director of Resources	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme (p21 App1 Corporate & S151 responsibilities)	Discharged through Chief Officers	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme (p24 executive Functions)	To Chief Officers in relation to areas within their remit	Making arrangements for the proper administration of the authority's financial affairs	
Sub delegation scheme (p53 Financial Procedure Rules – Treasury Management)	Function discharged by Chief Officer Financial Development	Treasury Management function	
 OPERATIONAL AUTHORITY OF OFFICERS			
POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY	
Treasury Management Policy (section 10) – execution of treasury strategy	Chief Officer Financial Development Principal Financial Manager Treasury Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations	

Appendix B

Cipfa TM Code			Compliance Assurance	
	Change	TM Strategy	TM practices	Council's position
A	Clarification of responsibility for TM	Make clear that responsibility for risk management and control lies within the organisation.		The scheme of delegation is shown within the treasury management policy statement (TMPS) and is referred to in Appendix A to this report. It is acknowledged that responsibility for TM rests within the Council. – Fully compliant
B	Declaration of risk appetite	Appetite for risk should form part of annual strategy and should ensure that priority is given to security and liquidity.		Contained in the annual treasury strategy report and the TMPS Fully compliant
C	Enhancing scrutiny role		Additional 'clause to be formally adopted' – name of body to be responsible for ensuring effective scrutiny of TM strategy and policies. Scrutiny role includes reviewing the TM policy and procedures and making recommendations to responsible body	The scrutiny of the treasury management function sits with the Corporate Governance and Audit Committee. Fully compliant
D	Minimum reporting requirements		Inclusion of a mid-year review in the minimum reporting requirements to full board/council	The Council already provides a mid-year report to Executive Board Fully compliant
E	Training		Responsible officer to ensure that members have access to training relevant to their needs. Those charged with governance are personally responsible for ensuring they have the necessary skills/training.	Training provided to members on 10/02/10 with a further session for Corporate Governance and Audit Committee on 29/09/10 Fully compliant
F	Should not over rely on credit ratings		Credit ratings should only be used as a starting point when considering credit risk". Should also use financial press, market data, information on govt support for banks and the	TM has used a variety of information sources to inform investment decisions prior to the credit crunch. Fully compliant

			credit ratings of that govt support.	
Cipfa TM Code				Compliance Assurance
	Changes	TM Strategy	TM practices	Council's position
G	Diversification policy		Include reporting by country, sector and group and the limits applied to each. Describe approach to collecting and using information other than credit ratings.	Changes to investment rationale reported to Executive Board in the treasury reports and TPMS updated. Fully compliant
H	Statement that policies and procedures must be followed	Officers involved in TM must be explicitly required to follow treasury management policies and procedures.		TMPS states that it will follow TMPS and procedures. An annual internal audit is conducted and the latest report gave TM substantial assurance. Fully compliant
I	Approval Process	Greater emphasis that annual strategy should be approved by full board/council.		Already adopted. Fully compliant
J	Treasury Management Indicators		Monitoring reports should include the TM indicators detailed in the sector-specific guidance notes.	Monthly updates are produced for FPG with quarterly strategy meetings with the Director of Resources and the Council's treasury advisers Fully compliant
K	Use of external service providers		Include regulatory status of services provided externally. The skills of the in-house team should be maintained so they can challenge the services provided and so undue reliance is not placed upon them.	TMPS refers to using a counter party list as prepared by the Council's advisors and its use is referred to in the reports to Executive Board. In house experience is enhanced by regular training, seminars attended and cores cities, West Yorkshire district working group involvement Fully compliant
L	Borrowing in advance	Clarification that borrowing in advance of need will only be		Working practices already incorporate full documentation

		undertaken where there is a clear business case for doing so for current capital programme or to finance future debt maturities.		for rationale behind any new borrowing, rescheduling, replacement borrowing or borrowing in advance of need. Fully compliant
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Cipfa Guidance				Compliance Assurance
	Changes	TM Strategy	TM practices	Council's position
A	Treasury Management Indicators		TM indicators within prudential code - authorised limit, operational boundary, external debt. TM indicators within TM code – interest rate exposures, maturity structure of borrowing, principal sums invested for less than 364 days	These indicators are already reported in the TM reports to Executive Board. Fully compliant
B	Accounting for TM		Be aware of accounting practices when carrying out TM activities.	Working practices already incorporate full documentation for rationale behind any new borrowing, rescheduling, replacement borrowing or borrowing in advance of need. This includes a view on accounting treatment. Fully compliant
C	'High 'credit ratings	Define what constitutes a 'high' credit rating in order that TM strategy is clear and approach to risk is transparent.		Already included within the TMPS. Fully compliant
D	DCLG (2004) investment guidance	The annual investment strategy should include the authority's policy on the use of credit ratings and credit rating agencies, the use, or not of an external advisor, and the schemes of delegation and the role of the section 151 officer		The annual investment strategy includes these requirements. Fully compliant

Cipfa Prudential Code			Compliance Assurance
Changes	TM Strategy	TM practices	Council's position
Net borrowing position	Where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy		Issues are highlighted in the annual strategy and subsequent updates Fully compliant
Accounting changes		The borrowing and investment prudential indicators should exclude all accounting adjustments i.e. EIR, premiums/discounts, accruals.	Existing policy is in line with the revised code. Fully compliant
TM prudential indicators to TM Code		Some indicators have been transferred from prudential to treasury indicators. The prudential indicator in respect of TM is that the LA has adopted the Cipfa TM Code and Cross Sectoral guidance notes.	The annual strategy confirms the requirements of the revised TM code and prudential code. Fully compliant

The Revised Cipfa Treasury Management Code of Practice 2009

- a. All councils must formally adopt the revised Code and four clauses
- b. The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- c. The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
- d. Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
- e. Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- f. Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- g. Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- h. The main annual treasury management reports MUST be approved by full council.
- i. There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- j. Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
- k. Treasury management performance and policy setting should be subjected to scrutiny.
- l. Members should be provided with access to relevant training.
- m. Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
- n. Responsibility for these activities must be clearly defined within the organisation.
- o. Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).