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**TREASURY MANAGEMENT**

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**Responsible Cabinet Member – Councillor Chris McEwan  
Efficiency and Resources Portfolio**

**Responsible Director - Paul Wildsmith, Director of Corporate Services**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To seek approval to a proposed change to the Terms of Reference of the Audit Committee, for that Committee to have a role in ensuring effective examination of the Treasury Management Strategy and Policies.

**Summary**

2. Following the Audit Commission's report "Risk and Return", the Chartered Institute of Public Finance and Accountancy (CIFPA) have proposed a number of Key Changes to the "CIFPA Revised Treasury Management Code" which have recently been consulted on. In addition to this consultation there are three changes proposed to the cross-sectorial guidance notes. A final revised code is expected shortly.
3. It is proposed that in future the Audit Committee examine the Treasury Management Strategies and Policies in detail prior to approval by Council.

**Recommendation**

4. It is recommended that the Terms of Reference of the Audit Committee be amended to include "to examine and comment on the proposed Treasury Management Policy and Annual Strategies"

**Reasons**

5. The recommendation is supported by the following reasons :-
  - (a) To comply with the proposed Key Changes to the "CIFPA revised Treasury Management Code"
  - (b) To enable a more through examination of the technical issues surrounding the Treasury Management Policy and Annual Strategies.

**Paul Wildsmith**  
**Director of Corporate Services**

**Background Papers**

CIPFA Revised Treasury Management Code consultation  
Audit Commission National Report “Risk and Return”

Elaine Hufford: Extension 2447

S17 Crime and Disorder	There are no crime and disorder implications
Health and Well Being	There are no health and well being implications
Sustainability	There are no sustainability implications
Diversity	There are no diversity implications
Wards Affected	All wards are affected
Groups Affected	No specific groups are disproportionately affected.
Budget and Policy Framework	No changes to the budget however the report contains proposed changes to the terms of reference of the Audit Committee, which if agreed would need to be reflected in the Constitution.
Key Decision	The report does not require a key decision
Urgent Decision	The report does not require an urgent decision
One Darlington: Perfectly Placed	The subject of the report concerns very large sums of public money, which could adversely affect the SCS if not properly safeguarded. The report is concerned with risk management and governance to support the effective use of resources.
Efficiency	Though it does not contain specific proposals to improve efficiency, the report refers to reviewing arrangements to support and further strengthen the efficient use of resources

## MAIN REPORT

### Information and Analysis

6. The exceptional events of the past 18 months in the financial markets have resulted in a number of reviews of regulations and practices throughout the world.
7. The Audit Commission published a national report in March 2009 “Risk and Return – English Local Authorities and the Icelandic Banks”. Following recommendations in this report CIPFA have produced a revised Treasury Management Code for consultation, which closed for comments on 18 September 2009.
8. The consultation proposes four key changes to the Code which are shown below with Darlington Borough Council proposed responses alongside:

**Table 1**

<b>Area</b>	<b>Proposed Amendment</b>	<b>DBC Response/Change in Practice</b>
Scrutiny	The organisation will be expected to name the individual/group of individuals or committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Audit Commission report states that this will usually be the audit committee.	Audit committee to receive Treasury Management reports to examine the strategy, policies and performance in depth and recommend approval or otherwise by Council, via Cabinet. Resources Scrutiny Committee would still be able to scrutinise such reports but they would not be placed on agendas routinely
Approval Process	The annual strategy can be approved by a named relevant committee and does not have to be approved by full board/Council. Where approval of the annual strategy is taken by a body other than full board/Council, the annual strategy should be reported to full board/Council	Approval still to be given by full Council but on recommendations from the Audit Committee, via Cabinet. If full Council did not retain responsibility for approval, the Strategy etc would still be required to be reported to Council
Training of Board/Council members	The responsible officer should ensure that all board/Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities	Officers to arrange in depth training on Treasury Management open to all Members, but targeted at Audit Committee, Cabinet and Resources Scrutiny Members
Reporting	In addition to the Annual strategy and year-end operation report, a mid year report will be required. This should be presented to full board/Council or relevant committee	A mid year report is already routinely reported to full Council. Intention in the future is for Audit Committee to make any recommendations, forwarding on for approval by Council via Cabinet

9. At present Treasury Management is scrutinised along with the Medium Term Financial Plan within the Prudential Indicators Report. Treasury Management has a narrow focus, is highly technical by nature and regulation is critical. It is, therefore, appropriate for inclusion in the remit of the Audit Committee along with other areas of a highly technical nature, such as the annual Statement of Accounts.
10. The detailed examination of the Treasury Management function by Audit Committee will not preclude its scrutiny by Resources Scrutiny Committee. It is, however, proposed that these reports are not routinely referred to Resources Scrutiny Committee but can be requested for inclusion on that Committee's agenda, either as individual reports or as a review subject.
11. If these proposals are approved the following annual work programme would be required:

**Table 2**

<b>Report etc</b>	<b>Audit Committee</b>	<b>Cabinet</b>	<b>Council</b>
Training	To be confirmed November/December 2009		
Mid Year Performance Report	18 December 2009	5 January 2010	28 January 2010
Annual Strategy 2010/11	18 December 2009	Special MTFP Cabinet February 2010	Special MTFP Council February 2010
Outturn Performance Report	End of June 2010	July 2010	July 2010

12. In addition to the changes discussed above there are also three key changes proposed to the cross-sectional guidance notes which are as follows:

**Table 3**

<b>Key Change</b>	<b>DBC Response</b>
The emphasis that organisations should not solely rely on credit ratings when choosing a counterparty, but should use all available market information.	Credit Ratings are used as an initial basis for considering financial institutions; however other information gathered from treasury advisers, the financial press etc is used to inform decisions on a daily basis
That a sound diversification policy will include country, sector and group limits	At present because of the financial climate we limit our country for investment purposes to the UK but further diversify by including Banks, Building Societies, Local Authorities, AAA rated Money Market Funds and the Government's Debt Management Office
Clarification that officers involved in treasury management must follow treasury management policies and procedures	This change has been recommended because some of those authorities that invested in the Icelandic Banks had not followed written procedures. Treasury policies and procedures are well established in Darlington Borough Council and under constant review. In particular investments are discussed within the team before any decision is made on placement this would include whether any institutions should not be approached because changes in their status. Treasury Officers do not act in isolation when making investment decisions

13. Terms of reference for the Audit Committee would need to be changed to cover this new role, for which approval by full Council would be required.

### **Outcome of Consultation**

14. There has been no external consultation on this report, which has previously been considered by Audit Committee.