ITEM NO …9…

AUDIT COMMITTEE
26TH JUNE 2009

TREASURY MANAGEMENT

SUMMARY REPORT

Purpose of the Report

1. To provide information regarding the Council's treasury management activity, with specific reference to a recent Audit Commission report and to propose future actions.

Summary

2. The Council has circa £29M invested with various financial institutions. The exceptional events of the past year or so in global financial sectors have prompted numerous reviews. The Audit Commission recently published a report focusing on English local authorities and the Icelandic banks, which recommends involvement of audit committees in setting councils' treasury management policies.

3. Darlington Borough Council had no money deposited with Icelandic banks at the time of their collapse, but it is appropriate for the Council to review its treasury management in light of the Audit Commission report and the continuing international financial environment.

Recommendations

4. It is recommended that: -

   (a) The contents of this report, including recommendations made by the Audit Commission, are noted;

   (b) A further report be brought to this Committee in September, to update Members on the review of the Council's treasury management and consider this Committee's role.

Paul Wildsmith, Director of Corporate Services

Background Papers

No background papers were used in producing this report, other than those referred to in the report

David Hall : Extension 2303

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 or policy framework are proposed
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 safeguarding and effective use of resources.
Efficiency	Though it does not contain specific proposals to improve, the report refers to reviewing arrangements to support and further strengthen the efficient use of resources.

MAIN REPORT

Information and Analysis

5. The exceptional events of the last year or so in the international banking and financial services sectors have caused numerous reviews of regulations and practices around the world. The single most dramatic of these events, certainly in terms of impact on local authorities, was the collapse of the Icelandic banking system in October 2008.

6. The Audit Commission published a national report in March 2009 titled "Risk and Return – English Local Authorities and the Icelandic Banks". That report contains recommendations to central government, the Chartered Institute of Public Finance and Accountancy (CIPFA) and local authorities and a statement of actions that the Audit Commission will take. The recommendations and Audit Commission actions are reproduced in **Appendix 1**. The report, which extends to 62 pages, can be accessed at **http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/riskandreturn.aspx**

7. The Commission has also stated that further advice and guidance will be published in summer 2009.

8. The Audit Commission report highlights the very large amount of public money, around £30billion, invested by local authorities. When the Icelandic banks went into administration, 127 local authorities had deposits of nearly £1billion invested in them. Though the vast majority of the money will be recovered, it is highly likely that some losses will be incurred by those authorities that had money in the banks at the time of their collapse.

9. At the time of the collapse, Darlington did not have any money with Icelandic banks. The Council had deposited up to £3million with Icelandic banks but ceased placing money with them in February 2008 and had all of it investments with them returned by March 2008. The fact that the Council did not suffer any loss reflects good management and sound information and advice, but does not mean that we can afford to be at all complacent.

10. Following a quick self-assessment, officers are confident that the Council currently carries out the key actions in the Audit Commission's recommendations to local authorities. It is, however, appropriate to carry out a more thorough review, using the Audit Commission report as a base, which will be done over the summer.

11. One of the recommendations to local authorities is that treasury management policies should be scrutinised in detail by a specialist committee, usually the audit committee, before being accepted by the authority.

12. Full Council approves the Council's treasury management policies annually in February for the following financial year. The legal framework and the Council's own constitution require this. After the end of each year, the treasury management outturn and key indicators are reported to Cabinet and Council and are also considered by Resources Scrutiny Committee. The 2008-09 report is due to be considered by Resources Scrutiny Committee on 25th June and by Cabinet on 7th July. The report to Cabinet will recommend two changes to the current investment strategy, adding the Council's bank to the list of institutions that investments can be placed with and increasing the limits for Money Market Funds, which help to manage risk by spreading exposure across a range of institutions.

13. It is proposed to bring a further report to the next Audit Committee meeting in September, subject to any further external advice, guidance or requirements, to give further consideration to the role of this Committee.

Outcome of Consultation

14. No consultation was carried out in preparing this report

Audit Commission report –
"Risk and Return – English local authorities and the Icelandic banks"

Recommendations

Central government should:

- Review and revise the weaker aspects of the national framework highlighted in this report, especially the weight given to credit rating;
- Enable and require the Debt management Office (DMO) to provide deposit accounts to public bodies if those bodies cannot achieve the security they require in the market; and
- Review the cost of early repayment of debt to the Public Works Loans Board to ensure that the structure introduced in November 2007 is not acting against the wider public interest by encouraging authorities to hold unnecessarily large deposits.

CIPFA should:

- Revise and tighten its code of practice for treasury management to take account of the findings in this report;
- Make more explicit the element of the prudential code that allows loans to be drawn down ahead of actually spending the money. Loans should be drawn down only after risks are fully assessed;
- Continue to work with the Association of Corporate Treasurers to develop appropriate training and qualification for those working in treasury management in local authorities; and
- Coordinate information sharing between local authorities to enable them to learn from one another. Any benchmarking activities should, as a minimum, highlight measures of security and liquidity of funds as well as yield.

Local authorities should:

- Set the treasury management framework so the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved. At the highest level, the organisation should decide whether it has
  - Appetite and capability to be able to manage risk by placing funds with financial institutions; or
  - No appetite and/or insufficient capability to manage the risks of placing funds in the market, and should instead place funds with the UK government's debt management office;
- Ensure that treasury management policies:
  - Follow the revised CIPFA code of practice;
  - Are scrutinised in detail by a specialist committee, usually the audit committee, before being accepted by the authority; and
  - Are monitored regularly
- Ensure elected members receive regular updates on the full range of risks being run;
- Ensure that the treasury management function is appropriately resourced, commensurate with the risks involved. Staff should have the right skills and have access to information and external advice;

- Train those elected members of authorities who have accountability for the stewardship of public money so that they are able to scrutinise effectively and be accountable for the treasury management function;
- Ensure that the full range of options for managing funds is considered, and note that early repayment of loans, or not borrowing ahead of need, may reduce risks;
- Use the fullest range of information before deciding where to deposit funds;
- Be clear about the role of external advisers, and recognise that local authorities remain accountable for decisions made; and
- Look for economies of scale by sharing resources between authorities or with pension funds, while maintaining separation of those funds.

The Audit Commission will:

- Ask auditors to follow up this report as part of their use of resources work for 2008-09 and future years;
- Work with CIPFA to ensure that the lessons in this report and the research on which they are based are included in the revised treasury management guidance; and
- Work with others to produce guidance and tools for those councils with a need to understand the treasury management function.