

Report to the Constitution and Member Services Standing Scrutiny Panel



Date of meeting: 29 March 2010

Portfolio: Finance and Economic Development

Subject: Treasury Management

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Committee Secretary: Mark Jenkins (01992 56 4607)

Recommendations/Decisions Required:

- 1. That the scrutiny of the Treasury Strategy, mid-year and outturn reports be made the responsibility of the Audit and Governance Committee and the roles and responsibilities within the Council Constitution for this Committee be amended to reflect this;**
- 2. That the Council continue to approve the Treasury Strategy;**
- 3. That the Cabinet continue to receive the treasury outturn report and the mid-year report following scrutiny by the Audit & Governance Committee; and**
- 4. That the Overview & Scrutiny Committee and the Council be recommended to approve the relevant changes to the Constitution.**

Report:

- Local authorities' treasury management activities are prescribed by statute. The source of their powers is in England and Wales, the Local Government Act 2003 (the 2003 Act). Essentially, a local authority in England and Wales may borrow or invest for any purpose relevant to its functions under any enactment, or "for the purpose of the prudent management of its financial affairs".
- Under the 2003 Act, the Council is required to adopt the CIPFA Prudential Code and to produce prudential indicators each year on the expected capital activity or introduce limits upon that activity and to reflect on the outcome of the Council's underlying capital appraisal system.
- Council's also are regulated by statutory requirement and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Council adopted the Code of Practice on Treasury Management in 2002 and subsequently formulated a Treasury Management Policy Statement.
- Following the collapse of the Icelandic Banks, there have been two national reports as a consequence, one from the Audit Commission (named Risk and Return English local authorities and the Icelandic Banks) in March 2009 and the second from the Communities and Local Government Select Committee (named Local authority investments) published June 2009.
- Neither report suggested that the current system was fundamentally flawed, though both made recommendations for improvement. Following these reports CIPFA published a revised Treasury Management Code and updated Prudential Code in November 2009.

6. The key changes to the Code are as follows:

(a) **Scrutiny** – The Council will be expected to name a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.

(b) **Approval Process** – The annual strategy can be approved by a named relevant committee and does not have to be approved by full Council. Where approval of the annual strategy is taken by a committee other than full Council, the annual strategy should be reported to full Council.

(c) **Training of Members** – The Director of Finance & ICT should ensure that all Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

(d) **Reporting** – In addition to the Annual strategy and year end operation report, a mid year report will be required. This should be presented to a relevant committee.

7. The purpose of the Audit and Governance Committee within the Council's Constitution is to 'provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process'. Although this does not specifically mention treasury management, the importance that the Council has significant funds to cover its capital expenditure and that the Council safeguards its investment portfolio, are risks to the Council.

8. It is proposed that the roles and responsibilities of the Audit and Governance Committee are changed to add the scrutiny of the treasury management strategy and policies. The Audit & Governance Committee has been consulted about this proposal and is supportive of the idea.

9. Although there is an option for the Council to nominate a relevant committee to approve the annual strategy, before being reported to Full Council, it is felt that as the strategy will be scrutinised before being approved, it is more democratic for Full Council to continue to approve the strategy. This is consistent with the approval process for the annual statutory accounts.

10. Currently, Cabinet receives the treasury outturn report during the September meeting. It is proposed that this continues to be the responsibility of Cabinet, as well as to receive the mid-year report at the December meeting. It would also be good practice to give the Audit and Governance Committee the role in scrutinising the mid-year and annual outturn report before submission to Cabinet.

11. Once the relevant committees and members involved with the treasury strategy, mid-year and outturn report are confirmed, the Director of Finance & ICT will arrange training for Members.