


Agenda item:

Cabinet		On 8 September 2009
Report Title: Treasury Management Review Update		
Report of: Chief Executive		
Signed: 		
Contact Officer : Dr Ita O'Donovan, 020 8489 2648		
Wards(s) affected: All	Report for: Non-key decision	
1. Purpose of the report 1.1. The Chief Executive commissioned a review of treasury management arrangements, which was reported to Cabinet in February 2009. It was agreed that an update be provided to Members in six months and this report highlights the progress made on the recommendations arising from that review.		
2. Introduction by Cabinet Member for Resources / Leader 2.1. I note the actions taken in relation to Treasury Management.		
3. State link(s) with Council Plan Priorities and actions and /or other Strategies: 3.1. This links to the Treasury Management Strategy approved at Council in February 2009 as part of the business and financial planning process.		

4. Recommendation

4.1 To note the progress against the action plan arising from the recommendations of the previous review.

5. Reason for recommendation

5.1. Members agreed at Cabinet in February 2009 that the Chief Executive would report back on progress from the recommended actions arising from the review in six months.

6. Summary

6.1 The report highlights the progress made on the recommended actions arising from the review reported to Cabinet in February 2009. These actions have all been implemented. Additionally the recommendations from the national review carried out by the Audit Commission have also been included in the action plan.

7. Chief Financial Officer Comments

7.1. The report updates Members on the progress made in implementing the actions arising from the review. Some recommendations were implemented in October 2008 following the events in the banking sector at that time and these have been incorporated in to the formal Treasury Management Strategy approved at Council in February 2009. The revised strategy and improved operational arrangements provide a robust basis for managing investments going forward.

8. Head of Legal Services Comments

8.1. The Head of Legal Services has been consulted on the content of this report and comments that the recommendations are within the policy agreed by Council and consistent with the purposes of Financial Regulations and proper conduct of the Council's treasury management functions.

9. Equalities & Community Cohesion Comments

9.1. There are no issues to report in respect of equalities and community cohesion.

10. Consultation

10.1. Although no formal consultation has taken place a number of expert views have been expressed on the issues of treasury management and the events of the last year and these have been considered as part of the way forward.

11. Service Financial Comments

11.1. There are no direct financial implications arising from the recommendations in this report.

12. Use of appendices /Tables and photographs

12.1. Appendix 1 – update of action plan from PWC review and recommendations

13. Local Government (Access to Information) Act 1985

13.1. Paragraphs 14.8 and 14.9 of this report are exempt as they contain information that falls within the categories 3 and 4, that is information relating to the financial and business affairs of other persons including the Council (3) and information relating to any contemplated consultations or negotiations in connection with a labour relations matter (4).

13.2. Background papers:

- Report of the Chief Executive to the Cabinet on 24 February 2009 – Treasury Management Review including exempt report and extracts
- Report of the Chief Financial Officer to the General Purposes Committee on 7 July 2009 – Treasury Management – 1st quarter performance 2009/10

14. Background and update

14.1. Pricewaterhouse Coopers LLP were appointed to conduct an independent review of the Council's treasury management functions in respect of investments and particularly in relation to the investment of funds in Icelandic banks.

14.2. The terms of reference of the review included:

- assessing the treasury management policies, procedures and investment strategy comparing these to best practice;
- reviewing the particular circumstances around the deposits made in Icelandic banks;

- reviewing the advice from the Council's external treasury management advisors;
 - assessing the role of external brokers in dealing with the Council's investments, and;
 - reviewing the procedures in place to consider and assess the potential consequences and risks associated with investment decisions.
- 14.3. On 24 February 2009, Cabinet agreed to accept all of the recommendations from PWC and that a report on progress would be prepared to update Members in six months time. The recommendations arising from the report are attached at appendix 1a together with the progress and action taken. All recommendations have been implemented.
- 14.4. Subsequently, in March 2009, the Audit Commission also carried out a review looking at the 127 English local authorities with deposits of nearly £1bn in Icelandic banks. The Audit commission themselves had £10m of deposits in two Icelandic banks. A number of recommendations were made for Central Government, the Chartered Institute of Public Finance and Accountancy (CIPFA) and for Local Authorities themselves. The recommendations for local authorities closely aligns to the work PWC did at Haringey and all of these actions are being reported separately to the General Purposes Committee. The attached appendix 1b sets out these recommendations.
- 14.5. The full set of recommendations was reported to the Audit Committee and these are being followed up as part of the normal quarterly monitoring process.
- 14.6. The Council's external auditors, Grant Thornton, reviewed the treasury management arrangements as part of the Use of Resources assessment after October 2008 in accordance with instructions from the Audit Commission. Although no specific recommendations were made as a result of this review it is highlighted as a key action area in the Council's Annual Audit and Inspection letter and says:
- In light of the Icelandic banking crisis, the Council needs to ensure its Treasury Management strategy continues to form a robust member led process for protecting the Council's financial assets
- 14.7. This issue has been highlighted in the Council's Annual Governance Statement (AGS) for 2008/09 as a significant issue for action going forward. The AGS, signed by the Chief Executive and the Leader, forms part of the Council's Statement of Accounts and was agreed by the General Purposes Committee on 25 June 2009.

Treasury Management Action Plan – Recommendations from PWC review

Ref	Recommendation	Management Response	Progress	Timescale
Treasury Management Strategy and criteria for lending				
1.1	<p>The Council should consider the extent to which it invests in financial institutions that are placed on Negative Outlook or Ratings Watch by credit ratings agencies, regardless of whether they meet the other minimum lending criteria at the time of the investment decision.</p> <p><i>[Additional PWC comment in recommendation - We understand that, as a result of the current circumstances within the banking Sector, many UK and non-UK banks are currently on negative outlook and that the Council would be faced with limited options to invest funds if investments were restricted to banks which are not currently on negative outlook. However, when making investment decisions, the Council should consider investing funds in those banks which meet minimum lending criteria and are not on negative outlook. As noted above, we have been informed that a number of changes to the Council's investment policies will be incorporated within the 2009/10 treasury management strategy].</i></p>	<p>The new Treasury Management Strategy (TMS) was approved by Full Council on 10 February 2009. The new strategy requires significantly more restrictive practices regarding investments and requires them to be placed only with banks and building societies (on a term or certificate of deposit basis) that have a minimum AA-long term credit rating and F1+ short term rating <u>and</u> are participants in the UK Government's Credit Guarantee Scheme (CGS).</p> <p>In relation to institutions placed on 'negative rating watch' or 'outlook', whilst a blanket approach to not placing deposits with institutions with this flag is preferable, the Council's practice will be to undertake an individual assessment and consideration will then be given at a senior level before any investment decision is made. This will apply to the individual rating of the institution too. This will take into account other factors such as government support and level of existing rating. The Chief Financial Officer will consider these assessments on an individual basis.</p>	Achieved	In place prior to TMS being agreed in Feb 2009

Treasury Management Action Plan – Recommendations from PWC review

Ref	Recommendation	Management Response	Progress	Timescale
1.2	The Council should consider using a matrix of counterparty limits dependent on the credit ratings of institutions.	The Council's new TMS goes further than this recommendation by only investing with banks and building societies (on a term or certificate of deposit basis) that have a minimum AA- long term credit rating and F1+ short term rating and are participants in the UK Government's Credit Guarantee Scheme (CGS). As the banking sector stabilises and the counterparty list is expanded then a matrix approach will be adopted.	Achieved	In place prior to TMS being agreed in Feb 2009
1.3	The geographical concentration of investments should be considered with thresholds stipulated as part of the Council's investment policy.	As 1.2 above, the Council's new TMS goes further than this recommendation by limiting investments to those covered by the UK Government's CGS. When the strategy expands to non-UK counterparties at some future date then this will be included.	Achieved	In place prior to TMS being agreed in Feb 2009
1.4	The Treasury Management Strategy should be formally reviewed on a quarterly basis and meetings should be held between the lead Member and the Chief Financial Officer as part of this review.	This practice is place. The Cabinet Member has had a quarterly review meeting and in addition the of the new quarterly review reports was be taken to the Council's General Purposes Committee on 7 th July 2009. A recommendation to revise the TMS went to Full Council and was agreed on 20 July 2009.	Achieved	In place for first quarter of 2009/10

Treasury Management Action Plan – Recommendations from PWC review

Ref	Recommendation	Management Response	Progress	Timescale
Process for review and consideration of information to inform risk and investment decisions				
1.5	A formal process for reviewing Sector Treasury Services Limited (“Sector”) communications on a daily basis should be established; this process should be documented and a record or log should be maintained to demonstrate that Sector advice has been considered by officers with comments, where appropriate, noting the Council’s response to the advice received.	The Council is now working with a new Treasury Management Adviser; Arlingclose. This recommendation, therefore, is deemed to refer now to this company. A formal review and logging process for Arlingclose communications is in place.	Achieved	In place prior to TMS being agreed in Feb 2009
Recognition of banking groups in forming the counterparty list				
1.6	The Council should consider applying the current counterparty limit to the collective banks within a group, rather than to individual institutions.	The Council’s new TMS ensures that group arrangements are taken account of.	Achieved	In place prior to TMS being agreed in Feb 2009
1.7	The interdependencies between groups of banks should be identified and recorded so that counterparty limits can be applied by officers, independently from the advice received from Sector.	The Council’s new TM advisers, Arlingclose, provide a daily update of the current status of the permitted institutions. This update includes group and interdependency information. Notwithstanding this, the current TMS requires these factors to be taken account of when making investments.	Achieved	In place prior to TMS being agreed in Feb 2009
Treasury management/investment function				
1.8	A review of the treasury management function should be undertaken to assess the increased role it has to play in the Council as a source of	The Chief Financial Officer has carried out a benchmarking skills and competency review of the current treasury function and	Achieved	April 2009

Treasury Management Action Plan – Recommendations from PWC review

Ref	Recommendation	Management Response	Progress	Timescale
	<p>income generation and the heightened financial risks attached to this activity.</p> <p>A review of the skills and competencies required in the department for those who are investing public money on a daily basis should be performed. An individual with the relevant experience and knowledge to interpret market data and information (in addition to credit ratings) that reflect the creditworthiness of an institution could potentially add to the skills set within the treasury management function. Alternatively, external advice which would bring such knowledge should be sought.</p>	<p>the Treasury and Pensions Team within Corporate Finance. Additional highly skilled temporary resources were brought in and a new arrangement with the Council's new external treasury management advisers was been put in place from February 2009.</p>		
Compliance with daily authorisation limits				
1.9	<p>Compliance with daily authorisation limits should be checked on a daily basis.</p> <p>Officers should maintain compliance with the daily authorisation limits which are set out in the Council's documented procedures. Where the lending limit is exceeded by a particular deal(s) on a given day, retrospective countersignatures should be sought as soon as possible by an officer with sufficient delegated authorisation.</p>	<p>A revised process is now in place which requires officers to certify they have checked and are complying with daily authorisation limits. An audit trail exists for this process.</p>	Achieved	March 2009

Treasury Management Action Plan – Recommendations from Audit Commission national report

Ref	Recommendation	Management Response	Progress	Timescale
2.1	<p>The Council should set the treasury management framework so that 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:</p> <ul style="list-style-type: none"> • appetite and capability to be able to manage risk by placing funds with financial institutions; or • no appetite and/or sufficient capability to manage the risk of placing funds in the market, and should instead place funds with the UK government's Debt Management Office. 	<p>The Council's new Treasury Management Strategy (TMS) was approved by Full Council on 10 February 2009. The new strategy requires restrictive practices regarding investments and requires them to be placed only with banks and building societies (on a term or certificate of deposit basis) that have a minimum AA- long term credit rating and F1+ short term rating and are participants in the UK Government's Credit Guarantee Scheme (CGS). Use of the Debt Management Office is specifically allowed in the strategy. The issue of risk has been fully addressed in the new TMS and in consultation with the Council's new advisers Arlingclose. On-going review of the suitability of the strategy is currently in place.</p>	Achieved	In place prior to TMS being agreed in Feb 2009
2.2	<p>The Council should ensure that treasury management policies:</p> <ul style="list-style-type: none"> • follow the revised CIPFA code of practice; • are scrutinised in detail by Members at a specialist committee, before being accepted by the authority; and • are monitored regularly. 	<p>The new TMS fully complies with the current CIPFA code of practice, but will be revised in light of the new code to be issued by CIPFA later this year. The policy and practices are being reviewed by the General Purposes Committee on a quarterly basis.</p>	Achieved	February 2009 July 2009

Treasury Management Action Plan – Recommendations from Audit Commission national report

Ref	Recommendation	Management Response	Progress	Timescale
2.3	The Council should ensure that elected Members receive regular updates on the full range of risks being run.	As above, there is a process of quarterly Treasury Management review reports to be taken to the Council's General Purposes Committee. The first of these review reports went on 7 July 2009.	Achieved	July 2009
2.4	The Council should 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.	The Chief Financial Officer has carried out a benchmarking skills and competency review of the current treasury function and the Treasury and Pensions Team within Corporate Finance. Additional highly skilled temporary resources were brought in and a new arrangement with the Council's new external treasury management advisers was been put in place from February 2009.	Achieved	April 2009
2.5	The Council should ensure that the elected Members of authorities who have accountability for the stewardship of public money are trained so that they are able to scrutinise effectively and be accountable for the treasury management function.	It is planned to institute a member training module on Treasury Management that will be provided on a suitably regular basis. The first report to the General Purposes Committee was a special meeting with the report being the only item on the agenda. Significant time was given to presentations and questions with external advisers also present. A further formal training session is planned for relevant Members in September.	Achieved	July 2009

Treasury Management Action Plan – Recommendations from Audit Commission national report

Ref	Recommendation	Management Response	Progress	Timescale
2.6	The Council should ensure that the full range of options for managing funds is considered, and note that early repayment of loans, or not borrowing money ahead of need may reduce risks.	The Council has considered the full range of options for managing funds on the advice of the new Treasury Management advisers. These options were part of the approved TMS and further discussion on these took place at General Purposes Committee in July 2009 with agreement to an expansion of investment approach.	Achieved	February 2009
2.7	The Council should ensure that the fullest range of information is used before deciding where to deposit funds.	The TMS provides for this and the new contract with Arlingclose also incorporates additional external and market information requirements.	Achieved	February 2009
2.8	The Council should ensure that the roles of external advisers are clear and that it is recognised that local authorities remain accountable for decisions made.	The Council recognises in the TMS that it is accountable for investment decisions made. The Council's new treasury management advisors provide advice and information and this is set out specifically in the new contract.	Achieved	February 2009
2.9	The Council should ensure that economies of scale are sought by sharing resources between authorities or with pension funds, while maintaining separation of those funds.	Consideration is being given to this by a number of London Boroughs together with some assistance with Capital Ambition to ascertain the benefits and risks involved.	In progress	On-going