

Audit Committee – 25th February 2010

10. Treasury Management Strategy Statement

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Purpose of the Report

This report has been prepared for the Audit Committee to introduce the changes required for the governance of the treasury management function and to introduce the Treasury Management Strategy Statement and Investment Strategy for 2010/11.

Recommendations

- (1) To approve the changes required to comply with the revised CIPFA Code of Practice;
- (2) to note the Treasury Management Strategy Statement, Investment Strategy, MRP Statement and Prudential Indicators for 2010/11;
- (3) to approve the timetable for the training and constitutional changes required.

Background

The Treasury Management Strategy Statement and Investment Strategy is approved annually by District Executive and Council. Quarterly monitoring reports are made to the Finance and Support Services Portfolio Holder and outturn reported to District Executive. Since the banking crisis and the loss of investment funds in Iceland Banks a select committee was set up to look at local authority investments and how treasury risks were managed. In addition to this the Audit Commission produced a report “Risk and Return” on local authority treasury management. This has led to a new code for authorities to follow.

Changes to the Treasury Management Code of Practice

The areas strengthened by the revised code are:

Minimum reporting requirements - The original code required two reports each year, one prior to the start of the financial year setting out the strategy and one after the close of the financial year reporting on the year’s activities compared to the strategy. In addition to this the code also specifies that a mid year review of the strategy is required to ensure it is fit for purpose and considered outside of the annual budget setting timetable.

Scrutiny – The revised code recommends a new scrutiny role and states a preference for an Audit Committee to provide this as part of their governance remit. The Audit Committee will replace the District Executive role in recommending the strategy to Council. It will also replace the quarterly monitoring role currently carried out by the Finance and Support Services Portfolio Holder. The Portfolio Holder also approved the Treasury Management Practices at present but the code recommends that approval is made by the Audit Committee.

Training for those charged with governance – The code stresses that appropriate training is available in order for those responsible for treasury management to discharge their duties. This includes those charged with governance and officers. It also states that those charged with governance recognise their individual responsibilities to ensure they have the necessary skills to complete their role effectively.

Approval – Overall approval of the Treasury Management Strategy and any amendments should remain with full Council

Treasury Management Strategy Statement and Investment Strategy 2010/11

The Treasury Management Strategy (attached at pages 23-50) is the key document that must be approved annually for treasury management and sets the parameters that the finance team must work within. In addition to this SSSC has adopted Treasury Management Practices (TMPs) that set out the roles, responsibilities, and process and procedures to be used on a daily basis.

The Strategy is split into the following main areas:

- Background
- Balance Sheet and Treasury Position
- Outlook for Interest Rates
- Borrowing Requirement and Strategy
- Debt Rescheduling
- Investment Policy and Strategy
- Balanced Budget Requirement
- 2010/11 MRP Statement
- Reporting
- Other Items

The Assistant Director – Finance and Corporate Services, the Finance Manager, and the Principal Accountant – Exchequer will take members of the Audit Committee through the Strategy for 2010/11. At this point it is to inform members of the various aspects of the strategy and how the new role of the Audit Committee impacts on the strategy and approval process.

Constitutional Changes Required

This will require an amendment under 4.11 of the constitution, “To recommend to Council the Treasury Management Strategy and Prudential Indicators” is removed as a District Executive function to an Audit Committee function as follows “To recommend to Council the Treasury Management Strategy Statement, Investment Strategy, MRP Statement and Prudential Indicators. To review the Strategy mid year and the annual activity report and recommend to Council. To monitor treasury management activity, and to approve Treasury Management Practices”.

In addition to this Financial Procedure Rules 3.6b require amendment from “A Treasury Management Strategy Statement setting out the main principles shall be adopted by the

Council and reviewed at least annually by the District Executive” to “A Treasury Management Strategy Statement setting out the main principles shall be adopted by the Council once reviewed at the beginning and middle of each year by the Audit Committee”.

Also within the Financial Procedure Rules 3.6e. “The Assistant Director Finance and Corporate Services will report at least three times per annum to the Finance and Support Services Portfolio Holder and at least annually to the District Executive. Such reports shall include a review of the Treasury Management Policy Statement, and an annual report on Treasury Management activity in the previous year by no later than 30 June. This changes to “The Assistant Director Finance and Corporate Services will provide an activity monitoring report at least three times per annum to the Audit Committee (including the mid year review of the Treasury Management Strategy Statement). In addition to this provide an annual report on Treasury Management activity in the previous year by no later than 30 June to the Audit Committee and by the 30th September to full Council”.

Additional terms of reference will be required for the Audit Committee as follows:-

“To review the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators twice per year and recommend them to Council for approval”.

“To monitor Treasury Management activity quarterly and annually and to approve the Treasury Management Practices on an annual basis”.

“To review the Treasury Management activity report annually and recommend to full Council”.

Timetable for Change

The timetable and process is outlined below:

Date	Audit Committee	District Executive	Council
February 2010	Audit Committee introduced to Treasury Management Strategy Statement		
March 2010		Executive recommends 2010/11 strategy to council and requests amendments to the constitution	Council approves strategy and amendments to the constitution
May 2010	External training provided to Audit Committee members in new role		
June 2010	Audit Committee approves annual treasury management activity report and		Refresher workshop for all members on Treasury Management.

Date	Audit Committee	District Executive	Council
	recommend it to full Council		
July 2010	1 st Quarterly monitoring report to Audit Committee		
September 2010	Audit Committee approves Treasury Management Practices		Council approves Treasury Management activity report
October 2010	2 nd Quarterly report and mid year review of strategy – recommendations made to Council of any changes		
November 2010			Council approves strategy with amendments if necessary
January 2011	3 rd Quarter monitoring report to Audit Committee		
February 2011	Audit Committee recommends Treasury Management Strategy and Prudential Indicators to Council		
March 2011			Council approves Treasury Management Strategy Statement and Prudential Indicators

Financial Implications

As well as internal training, external training is being arranged for Committee members to ensure that members have an understanding of their new role and also to enable them to challenge officers on treasury assumptions and decisions. The funding will be found from the members training budget in 2010/11.

Background Papers: *CIPFA Treasury Management Code of Practice*
Arlingclose Technical Paper – Revisions to the TM Code and Prudential Code
CIPFA – Treasury Management Panel Bulletin December 09