



AUDIT AND GOVERNANCE COMMITTEE:
31 January 2017

Report of: Borough Treasurer

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SUBJECT: TREASURY MANAGEMENT

Wards affected: Borough Wide

1.0 PURPOSE OF THE REPORT

1.1 To set out details of the operation of the Treasury Management function.

2.0 RECOMMENDATION

2.1 That the continuing effective operation of the Treasury Management function be noted.

3.0 BACKGROUND

3.1 A revised Treasury Management Code of Practice was approved by Council on 21st July 2010. Contained within this report was a recommendation that the Audit and Governance Committee be the formal body that scrutinises Treasury Management activities and its control framework. This report now provides an update on the current operation of this framework.

4.0 REPORTING ARRANGMENTS

- 4.1 There is a well-established procedure consisting of a suite of three reports that are submitted to full Council each year as follows:
- Capital Financing and Treasury Management Framework reported in February to set out the strategy to be pursued in the next financial year
 - Treasury Management and Prudential Indicator Performance reported in July to set out details of performance in the previous financial year
 - Treasury Management and Prudential Indicator Monitoring reported in October to set out details on the current year's performance and any issues arising
- 4.2 These reports are comprehensive in nature and contain a wide range of information including financial performance data. These reports are produced for full Council because of the scale of treasury management activities, which for example will involve an average level of investments of around £18m and borrowing of £88m during the course of the year.
- 4.3 The type of information contained in these reports include details on the investment activity that is being undertaken and performance against a benchmark of the 3 month LIBID interest rate. These reports also provide details on our borrowing policy and investment strategy, the amount of investments, which counterparties are being invested in, and an update of any developments within the financial sector that may affect treasury management activities.

5.0 AUDIT REVIEW

- 5.1 Given its scale, the treasury management function is subject to regular review by both internal and external audit. However no significant audit issues have been identified, and consequently the treasury management function can be seen to have a "clean bill of health". The latest internal audit review concluded that "there is a sound system of internal control embodied in the Treasury Management system, which provide appropriate mitigation of risk in relation to the Council's investments and this work provides **full assurance** that the system is operating effectively as intended."

6.0 INFORMATION NETWORKING

- 6.1 The Council uses Capita as its Treasury Management advisors. Capita provide financial information on a daily basis by e-mail and a number of face to face meetings are also held each year to discuss a wide range of issues such as interest rate forecasts, local government finance, government policy, the banking and building society sector, and economic forecasts. Treasury Management staff are also in regular dialogue with the services of a broker in order to gauge market sentiment and developments within this field.
- 6.2 These discussions are fundamental to setting an effective Treasury Management strategy. However while Capita and our brokers provide advice it is fundamentally the responsibility of Council Officers and Members to ensure that its treasury management functions operate effectively.

- 6.3 The type of information provided by Capita includes real time updates on the credit ratings of banks and building societies, and this information is referred to extensively when making investment decisions. This is because a key feature of the Council's treasury management policy is to minimise risk, and consequently investments are only made in the highest credit rated UK based financial institutions or in other local authorities.
- 6.4 There is also a networking facility with finance colleagues in other Lancashire authorities whereby finance issues can be raised in general and treasury management developments are discussed. The Council also participates in surveys of local authority treasury management activities to ensure it is aware of emerging best practice.

7.0 TREASURY MANAGEMENT DEVELOPMENTS

- 7.1 The Council currently has external borrowing of £88.212m which was taken out with the Public Works Loans Board in March 2012 in order to make the HRA self-financing payment to the Government. No further borrowing has been taken out since that date. In recent years the Council's capital investment programme has resulted in additional funding requirements, but these have been met by reducing the level of external investments as the interest rates they earn are significantly less than the cost of external borrowing.
- 7.2 The financial markets continue to be uncertain and as a consequence the security of treasury management investments is ranked as a key risk and is included on the key risk register that is reported bi-annually to Cabinet and Executive Overview and Scrutiny Committee.
- 7.3 The Council's Treasury Management policies require that any sums invested comply with the key principles of security, liquidity and finally yield. All our investments are made in compliance with these requirements. In terms of security, the number of counterparties that the Council can invest in is very limited due to our strict investment criteria. In practice this means that only around half a dozen UK based banks and building societies are used. However funds can also be placed with other local authorities and at the current time we have an investment facility with Lancashire County Council.
- 7.4 In terms of liquidity, the average length of time that investments are made continues to be relatively short. In the past investments have been made for periods of up to a year but given the ongoing economic uncertainty this has an increased risk. Consequently our current approach is that investments are not made for a period of more than 3 months. In practice given the state of the market it is difficult to find an investment opportunity of more than 3 months that meet our security criteria in any case.
- 7.5 Finally in terms of yield, our performance in recent years has exceeded the target of the 3 month LIBID interest rate. This represents good performance given that the security of taxpayers' money is the key principle behind our treasury management approach.

7.6 The Council's Treasury Management Policy and Practices were last amended and updated in February 2014. A review of these details is currently taking place and any changes that are required will be reported to Council in February 2017 for approval, at the same time as the Treasury Management Strategy for 2017-18 is reported.

8.0 TREASURY MANAGEMENT STAFFING

8.1 The Treasury Management accountant is CIPFA qualified and has significant experience in Local Government finance. The Borough Treasurer and Deputy Borough Treasurer are also closely involved in treasury management activities.

8.2 This means that the requirement for experienced and qualified staff to be employed in carrying out the treasury management function continues to be met. There are also adequate cover arrangements in place and an appropriate segregation of duties between officers.

9.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

9.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

10.0 RISK ASSESSMENT

10.1 Treasury management policies, practices and procedures are an integral part of the Council's financial control framework and provide assurance to Members that this function is operating effectively. The security of investments is recognised as a key risk but there are adequate arrangements in place to mitigate this risk to an acceptable level.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

None