

Kent County Council

TREASURY ADVISORY GROUP

Notes of a meeting of the Treasury Advisory Group held on Thursday 14 May 2009 at Sessions House, County Hall, Maidstone.

PRESENT: Mr N J Chard (Chairman), Mr A J King, Mr E E C Hotson, Mr J Simmonds and Mr D Smyth.

IN ATTENDANCE: Ms L McMullan (Director of Finance), Mr M Pickering (Arlingclose) and Mr G Mills (Democratic Services).

1. Terms of Reference

(1) The Group noted its Terms of Reference, governance arrangements and membership as follows:-

- a. The Treasury Advisory Group will be responsible for advising the Cabinet and the Director of Finance on treasury management policy within KCC's overarching Treasury Management Policy
- b. The Group will meet on a quarterly basis and at such other times of the year as deemed necessary by the Director of Finance or the Cabinet
- c. The membership of the Treasury Advisory Group will comprise:
 - i. The Cabinet Member for Finance (Chairman)
 - ii. Three Members (one from each political group represented on the Council) appointed by Group Leaders (not necessarily those Members appointed to serve on the IMG on Budgetary Issues)
 - iii. The Deputy Leader of the Council
 - iv. The Chairman of the Corporate Policy Overview Committee
 - v. The Chairman of the Superannuation Fund Committee

- d. The Director of Finance and/or the Head of Financial Services will attend all meetings of the Advisory Group
- e. Meetings of the Advisory Group will be held in private because of the commercially sensitive nature of the information being discussed
- f. Following each meeting of the Treasury Advisory Group, a summary of policy recommendations made will be prepared for the Cabinet's consideration. Following the Cabinet discussion, the outcomes will be reported in the usual way in accordance with the Constitution

(2) In relation to paragraph (f) above the Group agreed that as well as a copy of meeting notes being forwarded to the Cabinet for consideration following which a copy would also be forwarded to the Cabinet Scrutiny Committee and to the Governance and Audit Committee.

2. Cash Position Statement

(1) Ms McMullan and Mr Pickering updated the Group on the cash holdings of KCC as of 5 May 2009. This highlighted the fact that in accordance with previously agreed actions new and maturing monies had been deposited with the Debt Management Office and as a direct result diversification had reduced. KCC money remained with other banks and building societies where contracts were properly entered into and that meant significant risk remained given the current financial climate. The report also set out the actions in place to implement the recommendations made previously in the PricewaterhouseCoopers report.

(2) Following discussion the Group noted the following:-

There are now two main priorities:

- To prepare options on counter party strategy moving forward for members. The current use of the Debt Management Office is not a viable long term strategy. Extensive work is underway on alternatives focussing on guaranteed deposits.

- To fully implement the recommendations of the PwC report and the Audit Commission report. It should be noted on the latter that KCC already measures up very well against the good practices identified.

(3) To achieve these objectives the following is now underway:

- Appointment of a Treasury & Investment Manager- this is a new post at a senior level which will have the prime responsibility for treasury issues moving forward. If a permanent appointment cannot be made we will implement an interim solution.
- External Consultant - an experienced treasury professional has been undertaking detailed due diligence on Money market Funds and in-particular the new Government guaranteed Money Market Funds.
- External Adviser- Arlingclose have been commissioned to advise on investment issues for a 6 month period. Their remit is focussed on assisting KCC in moving forward with a more diversified investment strategy (which will be for Cabinet to agree), rewriting the Treasury manual to reflect the new strategy and specifically addressing technical improvements identified by PwC in their review.
- Governance - all decisions on revising the counterparty policy will be taken through the Treasury Advisory Group, for consultation and to Cabinet for decision.

3. Implementation of recommendations of PricewaterhouseCoopers, CIPFA and Audit Commission reports – detailed Action Plan

(1) The County Council has engaged the services of Arlingclose which is an independent financial advisory company with particular expertise of working in the public sector. Arlingclose is working with relevant officers of the County Council in

order to particularly advise on the implementation of the findings of the PricewaterhouseCoopers report and the recommendations of the CIPFA and Audit Commission reports. Arlingclose have classified the various recommendations made in these reports under six general categories, these being skills, resources, documentation, control, monitoring and strategy.

(2) Ms McMullan said that over the coming months the Council would need to reach a view on what its Treasury Management Strategy should be and to review its current Risk Strategy and whether that needed to be changed. For the immediate future she said that there needed to be a focus on developing training in treasury management activity for both Members and officers and the need to develop a framework of working protocols and to develop monitoring procedures to ensure that these were adhered to. Arlingclose would also be working with KCC officers to redraft the current Treasury Management Practices and would be advising the Council on the adoption of the "Bloomberg System" which would allow the County Council to have direct access to market information and intelligence and provide an independent check to information from advisors. Ms McMullan also said that as mentioned in paragraph 2 (3) above the Financial Services Team is to be strengthened by the appointment a Treasury and Investment Manager who would be working directly to the Head of Financial Services. However this position is in the meantime being fully covered by an interim section head.

(3) During the course of discussion Members of the Group said that the Council's approach to Treasury Management should be around the need to protect capital, spread risks and have flexibility. It was also said that the Council should approach this work on the assumption of having lower returns as then there would not be pressure to take unnecessary risks. At the same time there was a need to maximise income but that had to be done within a known risk framework. Mr Pickering said that current KCC policies reflected a risk adverse approach and the review of its Treasury Management policies and strategies showed that there were no significant gaps in its current processes and procedures.

(4) The Group also noted that as part of the work being undertaken by Arlingclose there would be training for both Members and KCC officers aimed at broadening their understanding and skills relevant to their roles. It was also recommended that

relevant officers should be encouraged to undertake the CIPFA Treasury Management qualification and that consideration should be given to other relevant professional training from established financial training companies.

(5) During the course of discussion it was said that the training to be provided had to be at a sufficient level so as to give a clear understanding of treasury management policies and strategies in order to enable both Members and officers to monitor these activities fully within KCC. The Group agreed a date would be arranged for this training to be undertaken on a day in July and that at some future date this training could also be offered for Members of the Cabinet and Cabinet Scrutiny Committee.

4. Dates of future meetings

In accordance with its agreed Terms of Reference the Group confirmed that it would be holding meetings quarterly but additional meetings could be arranged if and when necessary. On that basis the Group would meet again during September on a date to be confirmed.