

By: Cabinet Member for Finance
Director of Finance

To: Governance and Audit Committee – 1 December 2009

Subject: **TREASURY MANAGEMENT**

Classification: Unrestricted

Summary: To report on Treasury management

FOR DECISION

INTRODUCTION

1. As part of the new control regime for treasury management it is proposed to report quarterly to Governance & Audit Committee. Previously the committee only received the annual review.

CONSTITUTIONAL RESPONSIBILITIES

2. Financial Regulations state that Governance & Audit Committee is responsible for:

“monitoring the operation of borrowing and investment policies and Treasury management activity”.
3. The Director of Finance is responsible for the Council’s treasury management activities. The Financial Regulations define these as:

C.22 The Director of Finance is responsible for:
 - I. Reporting to the Cabinet member for Finance, in accordance with CIPFA’s Code of Practice: Treasury Management in the Public Services, on the creation and maintenance, as the cornerstones for effective treasury management, of suitable treasury management practices (TMP’s), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
 - II. Reporting to the Cabinet and the County Council on the treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year.
 - III. Implementing and monitoring the treasury management policies and practices.

- IV. Establishing procedures to monitor and report on performance in relation to treasury management prudential indicators set by the Council.
- V. Reporting to the Governance and Audit Committee and the Cabinet Member for Finance on the activities of the treasury management operation and on the exercise of his delegated treasury management powers. One such report will comprise an annual report on treasury management for presentation by 30 September of the succeeding financial year.
- VI. All decisions on borrowing, investing or financing.
- VII. Ensuring that all borrowing and investment of money are made in the name of the authority on in the name of an approved nominee.”

GOVERNANCE ARRANGEMENTS

4. In July the Treasury Advisory Group (TAG) was established to work with the Director of Finance on treasury management issues.
5. The group consists of:
 - Cabinet Member for Finance
 - Deputy Leader
 - Chairman Corporate Policy Overview Committee
 - Chairman Superannuation Fund Committee
 - Liberal Democrat Finance Spokesman
 - Leader Labour Group

The group meets on a quarterly basis.

6. The agreed Terms of Reference are:

“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”.
7. All policy decisions on treasury management issues are then taken at Cabinet.

PROPOSED REPORTING

8. The operation of the Council’s treasury management arrangements is the responsibility of the Executive of the Council. This report puts forward proposals for the information which this Committee receives to enable it to monitor the effectiveness of treasury management

arrangements. This is primarily from the perspective of risk and adherence to internal control processes.

9. The proposal is that on a quarterly basis the Committee should receive:
 - Draft minutes of any TAG meetings held.
 - A summary of major developments, such as the change in counterparty policy agreed by Cabinet on 12 October.
 - A performance report for each quarter end date. Members of TAG receive this report monthly.
 - A statement of deposits again for each quarter end date. Members of TAG receive this report weekly.
10. A full annual review will be submitted to the June meeting of the Committee.

TREASURY ADVISORY GROUP

11. Draft minutes of the TAG on 3 September are attached in Appendix 1.

SUMMMARY OF MAJOR DEVELOPMENTS

12. The major developments in the period have been:
 - (1) Appointment of a Treasury & Investments Manager – this is a new senior level post within Corporate Finance. An experienced commercial accountant previously working at the Corporation of Lloyds has been appointed.
 - (2) New Internal Control Processes – with assistance from Arlingclose the Treasury Management Practices have been totally revised as have the detailed operational procedures behind them. Improved separation of duties has been achieved by separating the treasury dealer and back-office roles.
 - (3) Approach to deposits – following detailed examination at two TAG meetings and with substantial support from Arlingclose, Cabinet agreed a new approach to deposits on 12 October. Five financial institutions; Lloyds / HBOS, RBS, Barclays, HSBC and Abbey National have been added to the counterparty list – the Debt Management Office remain on it. Each has a £40m limit. Deposits cannot be made for periods of longer than 6 months.

- (4) Borrowing – no borrowing has been undertaken. With the low rate of interest on deposits and the differential with long term borrowing costs we will avoid taking long term borrowing for as long as possible.
- (5) Debt refinancing – in October £60m of short term loans maturing in January 2010 were refinanced. A new PWLB loan for 25.5 years at 4.1% was taken out. Since then rates have increased substantially (4.45% 5 November).

QUARTERLY PERFORMANCE REPORT

13. A performance report as at 30 September is attached in Appendix 2.

STATEMENT OF DEPOSITS

14. Given the change in counterparty policy for this report a statement at 30 October rather than 30 September is attached in Appendix 3.

RECOMMENDATION

15. Members are asked to:-
 - (1) Agree the format for future reporting to the Committee.
 - (2) Note the quarterly report.

Nick Vickers
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