Bolton Council

Report to:	Executive		
Date:	27th April 2009		
Report of:	Director of Corporate Resources	**Report No:**	
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Report Title:	**Treasury Management Strategy**		

Confidential / Non Confidential:

(***Non-Confidential***) This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

Purpose:

To update the Executive on the Treasury Management Strategy in view of the latest position on investments in Icelandic Banks and the recommendations of the Audit Commission on this issue

Recommendations:

That the Executive notes the changes to the Treasury Management process and agrees the Investment Policy as set out in Appendix 1.

Background Docs:

Audit Commission Website – www.audit-commission.gov.uk for the full Audit Commission report

Introduction

Members will recall that 2008 saw an unprecedented crisis within the banking sector and in October the collapse of several Icelandic banks. At that time, the Council had £6m invested in two of these banks, £2m in Landsbanki (based in Iceland) and £4m in Heritable (a UK based subsidiary).

Progress to date

Following the banks collapse the LGA has been working closely with those local authorities who had money invested in Iceland, leading on negotiations with the creditor committees for the banks and also pursuing the cause of these authorities with central government. The current position on these investments is that the administrators of Heritable have said that they hope to make a substantial interim payment to lenders within the next two months. The investment with Landsbanki was at first more uncertain due to the Icelandic government's actions in altering legislation, however more recently there have been indications that the Icelandic government will change its stance, thus giving the council's claim a higher priority and more likelihood of recovering a substantial part, if not all, of our investment. However, it is expected that this will not be resolved for some time.

Audit Commission investigation

Nationally 127 local authorities had £954m invested in Icelandic banks at the time of their collapse and as a result the Audit Commission launched an investigation into treasury management within local authorities.

In April the Audit Commission published its report which provides a comprehensive assessment of treasury management procedures and the Icelandic issue and makes recommendations for central and local government, as well as for CIPFA and its own organization.

Findings of the report

In its introduction the reports says "with the benefit of hindsight, we now know that the risk of a banking failure was greater than most people had anticipated. Nevertheless, there are lessons to be learned from the collapse of the Icelandic banks".

Importantly for the Council the Commission's report names seven authorities who it considered "negligently deposited" monies in Iceland and Bolton was not included on this list.
The report highlights five key messages:

1. Local authorities have used interest from cash deposits as a valuable source of income
2. The sums of money involved are large and invested widely. On 7 October 2008, 451 local authorities had invested £31 billion, more than 40% of it overseas
3. Almost 3.1% of all deposits were held in the failed Icelandic banks. 127 local authorities held deposits, but delivery of services has not, as yet, been affected
4. The national treasury management framework is broadly right, but weaknesses in the detail have contributed to poor practice. In particular, there is little recognition that risks associated with placing deposits with different banks may be highly correlated because they are in the same group, country or sector. Additionally, the government's investment guidance gives too much weight to credit ratings at the expense of using a range of information sources

5. Local treasury management arrangements vary. The best organizations balance risk and reward and arrangements include: regular review and scrutiny of policy and procedure; appropriately trained staff and engaged elected members; and the use of a wide range of information including, but not limited to, credit ratings.

Recommendations of the report and Treasury Management Procedures within Bolton Council

The report provides much information and guidance for treasury management moving forward. Its recommendations for local authorities are summarised below, together with details of how the Council already meets or is responding to these.

- Set the treasury management framework so that the organization 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 organization should decide whether it has:
    - Appetite and capability to be able to manage risk by placing funds with financial institutions; or
    - No appetite and/or insufficient capability to manage the risk of placing funds in the market, and should instead place funds with the UK government's Debt Management Office;

The Treasury Management framework within the Council identifies an acceptable level of risk. It adopts criteria to be followed and the "lowest common denominator" approach recommended by the treasury management advisors when selecting counterparties with whom to invest. Three money market funds have also been opened recently to ensure we have the ability to place funds securely. **The Investment Policy of the Council is attached at Appendix 1.**

- Ensure that treasury management policies:
    - Follow the revised CIPFA code of practice;
    - Are scrutinised in detail by a specialist committee, usually the audit committee, before being accepted by the authority; and
    - Are monitored regularly;

The treasury management policy of the Council is attached at Appendix 4. Appendices showing the current approved counterparty list and an explanation of the credit ratings are attached at Appendices 2 and 3. This policy adopts the CIPFA code of practice. The Council's Treasury Management Officer ensures compliance with this code in the day to day activities and monthly meetings are also held with the Deputy Director of Corporate Resources to monitor treasury management activities and highlight any issues or trends that have emerged.

- Ensure elected members receive regular updates on the full range of risks being run;

Through the Executive Member briefing process, an annual report to the Executive and communications to all members and officers, the key issues surrounding treasury management have been shared. Moving forward twice yearly reports will be presented to both the Executive Member and the Audit Committee.

- 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;

As outlined in the treasury management policy, the team within the Council is well resources and has a substantial amount of experience in this area. In addition, the Council receives the support of Butlers, an external firm of treasury management specialists.

- Train those elected members of authorities who have accountability for the stewardship of public money so that they are able to scrutinise effectively and be accountable for the treasury management function;

Training on a formal and informal basis has been undertaken, but due to the prominence of treasury management it is intended to run a series of training courses supported by Butlers to provide a further in depth session on this issue.

- 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;

With the support of Butlers, all options are considered in the management of our funds. The recent fall in interest rates has resulted in falling investment income, and as a result the Council has taken the opportunity to repay and reschedule loans to both reduce the risk of placing monies on deposit and to take advantage of much lower borrowing costs. This has allowed the loss of income to be offset by reducing costs of borrowing.

- Use the fullest range of information before deciding where to deposit funds;

Decisions on where to deposit funds follow the approved policy and take into account our level of risk, the views of the treasury management advisors and the ratings provided by the external agencies. Care is also taken to ensure that any emerging information, for example in the national press, is also taken into consideration. The current climate within the financial sector means that the Council has sought to minimize the amounts held on deposit and where monies are placed this is done on a short term basis with the most securely rated counterparties. In addition opportunities to re-schedule loans have been taken.

- Be clear about the role of external advisors, and recognize that local authorities remain accountable for decisions made; and

The Council accepts that ultimately the responsibility for setting the investment strategy lies with itself, and as such this is regularly discussed with the Deputy Director of Corporate Resources. Our external advisors are clearly informed about this strategy and the accepted levels of risk and support us in achieving this and dealing with emerging conditions in the financial markets. We will work with our advisors to explore how they can further support us in our treasury management activities.

- Look for economies of scale by sharing resources between authorities or with pension funds, while maintaining separation of those funds.

The Council is always looking for opportunities to share resources, information and examples of good practice and there is a good working relationship within the AGMA family of treasury management officers.

Conclusions

The Audit Commission's report contained a thorough investigation of treasury management procedures within local authorities and found the Council's approach was appropriate and balanced risk and reward. Some of the recommendations made have already been adopted within the Council and therefore moving forward the focus will be on achieving the following:

1. Continue to closely monitor the external financial situation and within the approved strategy minimize the risks associated with treasury management activities
2. Increased formal reporting to Members of treasury management activities
3. Developing a formal training course for members
4. Working with our advisors to ensure the fullest information is available to inform decisions