

TREASURY MANAGEMENT ASSURANCE REPORT

1. EXECUTIVE SUMMARY

- 1.1 This report sets out information around the arrangements in place relating to management controls and risk for treasury management. Its purpose is to provide assurance to the Audit Committee that appropriate arrangements are in place.
- 1.2 There are a number of management arrangements in place in relation to regulatory issues, segregation of duties, treasury reporting, Member involvement and training. The service is subject to both internal and external audit scrutiny.
- 1.3 The Council is supported by Capita Asset Services as its treasury advisors. The contract is currently on a one year extension with retendering due to take place later this year.
- 1.4 Key risks identified are transactions risks, strategic risks, interest rate risks, borrowing risks and investment risks and these are all actively management by the treasury team on a regular, in some cases, daily basis.
- 1.5 The recommendation is that the report is noted.

TREASURY MANAGEMENT ASSURANCE REPORT

2. INTRODUCTION

- 2.1 This report sets out information around the arrangements in place relating to management controls and risk for treasury management. Its purpose is to provide assurance to the Audit Committee that appropriate arrangements are in place.

3. RECOMMENDATIONS

- 3.1 The treasury management assurance report is noted.

4. DETAIL

- 4.1 Treasury Management is a complex area of the Council's activities with the potential for significant financial consequences and as a result there are key risk and management control issues. Recognising this and the Audit Committee's overall interest in management controls and risk this report has been prepared to give assurance to the Audit Committee that there are appropriate arrangements in place for managing the Council's treasury activities.

- 4.2 Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

- 4.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 24 June 2010. The primary requirements of the Code tailored to show how they are met in Argyll and Bute are as follows:

- a) The Council will create and maintain, as the cornerstones for effective treasury management:
- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

- b) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after the end of the financial year, in the form prescribed in its TMPs.
- c) The Council has responsibility for the implementation and regular monitoring of its treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the Head of Strategic Finance, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's Standard of Professional Practice on Treasury Management.
- d) The Council nominates the Performance Review and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- e) The Council nominates the Policy Lead for Strategic Finance as the member responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Management Arrangements

4.4 The Audit Committee should be able to take assurance that the Council has appropriate management arrangements in place for its treasury activities based on the following:

4.5 Regulatory: The Council has adopted and complied with the Code of Practice and a review is carried out each year to ensure we continue to meet the requirements of the Code. The following TMPs are in place and reviewed annually: The TMPs can be revised with the agreement of the Head of Strategic Finance.

- TMP 1 Treasury risk management
- TMP 2 Best value and performance measurement
- TMP 3 Decision-making and analysis
- TMP 4 Approved instruments, methods and techniques
- TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP 6 Reporting requirements and management information arrangements
- TMP 7 Budgeting, accounting and audit arrangements
- TMP 8 Cash and cash flow management
- TMP 9 Money laundering
- TMP 10 Staff training and qualifications
- TMP 11 Use of external service providers
- TMP 12 Corporate governance

4.6 Management: TMP 5 sets lines of responsibility, accountability and delegation in relation to treasury activities.

4.7 Reporting: The Council meets and exceeds the requirement for reporting on treasury management by

- Preparing an annual treasury and investment strategy (submitted to Council 11 February 2016)

- Submitting an annual report on treasury and investment activities (submitted to Council on 30 June 2016)
 - Submitting update reports on treasury activities 2 monthly to Policy and Resource Committee and quarterly to PRS Committee.
- 4.8 Member Involvement: The Council Leader and Policy Lead for Strategic Finance is the nominated lead member for treasury management and receives copies of all reports on treasury management for scrutiny.
- 4.9 Training: Training requirements for officers are reviewed at quarterly review meetings with the treasury advisors. Officers also attend external training seminars arranged by the treasury advisors.
- 4.10 Internal Audit: Treasury activities are subject to regular review by internal and external audit. Internal Audit as part of their continuous monitoring programme sample test various treasury management internal controls on an on-going basis. An overall Substantial level of assurance has been provided. Management have addressed any identified weaknesses as required.
- 4.11 External Audit: The External Auditors as part of their audit of the 2015-16 Financial Statements found that the Council had made an investment with Credit Industriel et Commercial (CIC) a French institution at a time when France was rated at AA which was below the minimum sovereign rating of AA+ included in the Council's Investment Strategy.
- 4.12 The Council is running with substantial cash balances and is spreading the risk by using counterparties across a number of countries and is always looking for new counterparties to further mitigate the risk. The investment in CIC on the basis of the individual credit rating of the institution justified the placing of a deposit up to 6 months. French institutions appear on our Capita counterparty list as they exceed the minimum criteria which they use for assessing counterparty risk. The Council at the time the deposit was placed was in the process of reducing the sovereign rating to AA to increase the number of eligible counterparties to assist in diversifying the portfolio of investments. Our minimum sovereign rating is still one notch above the Capita minimum of AA-.
- 4.13 To ensure this oversight due to work pressures does not happen again, the need to ensure that the Sovereign Rating meets our Investment Strategy minimum criteria has been highlighted during a treasury team meeting held to review the audit finding. We have also asked Internal Audit to adjust their continuous monitoring regime to look at the sovereign rating as well as the individual rating of the counterparty.
- 4.14 Advisory Support: The Council is supported by Capita Asset Services as its Treasury Advisors. Capita Asset Services are part of the Capita group of companies. It is the largest provider of treasury advice to Councils in the UK. The Council reappointed Capita Asset Services in March 2012 for a period of 3 years following a tendering exercise. The contract has been extended for a year and will be retendered during 2016-17.

Key Risks

- 4.15 The section below outlines in summary terms how some of the key risks are

managed:

- 4.16 Transactional Risks: Segregation of duties and in particular separation of initiator and approver roles and setting limits for individuals in terms of their delegated authority are key controls to transaction risks. There is regular reconciliation and cross checking of treasury records to act as a management/supervisory control.
- 4.17 Strategic Risks: There are quarterly reviews with the treasury advisors and review of economic and market data in between to assess the ongoing relevance of the agreed strategy.
- 4.18 Interest Rate Risk: Interest rate and market data is monitored daily and assessed in terms of any action the Council needs to consider or take. Triggers are set to prompt formal consideration of when to drawdown borrowing or reschedule debt etc.
- 4.19 Borrowing Risks: The borrowing portfolio is reviewed to avoid over exposure to too many loans maturing in any one period. There are also limits to balance the mix between fixed and variable rate loans. All borrowings are in sterling so there is no exchange rate exposure.
- 4.20 Investment Risks: The risk of counter parties is reviewed with the treasury advisors and investments are made only within agreed policy. This sets down approved counter parties and agreed limits on amount and duration of investment. All investments are in sterling so there is no exchange rate exposure. The Council complies with the Scottish Government investment regulations. Changes and potential changes in counter parties credit status is monitored in order that action can be taken where required.

5. CONCLUSION

- 5.1 Satisfactory assurance can be taken that adequate arrangements and controls are in place in respect of managing and delivering the Council Treasury functions. The service is subject to both Internal and External Audit Scrutiny and Management have addressed any weaknesses identified.

6. IMPLICATIONS

- 6.1 Policy – None.
- 6.2 Financial - None
- 6.3 Legal - None.
- 6.4 HR - None.
- 6.5 Equalities - None.
- 6.6 Risk - None.
- 6.7 Customer Service - None.

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