

Treasury Management – Independent & Effective Assurance Reviews

Consultations & Code Updates

In response to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property, CIPFA launched consultations on its Treasury Management Code of Practice and its Prudential Code for Capital Financing.

These Codes define a regulatory framework that the council and all local authorities are required to comply with.

Compliance with this framework results in a number of policies, systems and procedures that enable a council to invest and borrow appropriately.

These consultations resulted in updated versions of these Codes of Practice.

Consultations & Code Updates

The purpose of the revised Codes is to:

- improve reporting and increase transparency;
- ensure capital plans and investment plans are affordable and proportionate
- tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield;
- ensure treasury management decisions are being made in accordance with proper professional practice; and
- ensure the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure and involve members adequately in making properly informed decisions on such investments.

Effective Treasury Management

To support effective treasury management at the council we have developed training material to support members in:

- their understanding of treasury management activity;
- and their role in independent and effective assurance reviews of this function.

However, this does come with a

WARNING!



Coffee at the ready!!!!



What is Treasury Management?

As an overview, treasury management is defined in the Code of Practice as:

‘the management of the organisation’s borrowing, investments and cash flows, including 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’

Essentially treasury management activity involves:

- managing the council’s cash flow;
- making decisions on investments and / or borrowing to support the council’s overall policy objectives; and
- a series of policies, strategies and controls.

Effective Treasury Management

Effective Treasury Management:

- provides support towards the achievement of the council's business and service objectives;
- gives consideration to the principles of achieving value for money; and
- employs suitable, comprehensive performance measurement techniques within the context of effective risk management.

Cash Flow Management

Cash flow management is the process by which the council monitors the overall liquidity of the council's finances and calculates the amount of cash that may be surplus at any point in time. Surplus cash is invested to enable the generation of a financial return, this interest generated increases the funding available to the council to support its policies and business objectives .

Cash flow management also:

- enables the understanding of the timing of payments and receipts. The need to spend money does not always coincide with the receipt of funds, as such we manage instances where the council has a temporary deficit or excess of cash;
- enables effective borrowing decisions that smooth out cash flows and support capital expenditure requirements; and
- ensures that the council has the required cash available to fund its capital expenditure plans.

Cash sources

Cash is generated from a variety of sources including:

- Council Tax and Business Rates collected
- Revenue Support Grant, Specific Grants and Fees and Charges
- Reserves and Balances
- Capital Receipts and Grants
- Capital Borrowing



Investment Objectives

The regulatory framework dictates that the council is required to produce an Annual Investment Strategy to:

- encourage the 'prudent' investment of funds that the council holds on behalf of its communities; and
- balance relative risk and reward, this is particularly important for the council, given that we are dealing with public funds.

A prudent investment policy will also consider:

- the achievement of the security (protecting the capital sum from loss);
- the liquidity (ensuring the money is available when needed) of funds;
- the return that could be obtained within these priorities.

Borrowing Objectives

The Prudential Framework for Capital Finance, supported by CIPFA's Prudential Code, enables the council to borrow money for capital purposes, should it be considered as affordable and prudent.

The treasury management function seeks to ensure that:

- borrowing costs are minimised; and
- the structure of the council's overall borrowing will not leave it overly vulnerable to market conditions (e.g. if a large proportion of the council's debt is maturing and requires renegotiation at one particular point in time, the council is potentially vulnerable to prevailing market interest rates).

Treasury Activity & Risk Management

Risk management in Treasury Management has some unique factors to consider:

- Ensuring the council has enough assets to meet its liabilities (liquidity). Is the council investing the right amount given its overall cashflow;
- Exposure to certain investment risks. There is a need to set limits to how much the council can invest in certain products, mindful of the need to be able to realise assets quickly when needed; and
- Diversifying. Essentially, this is about ensuring that there is a spread in its portfolio enough to deal with any likely economic or financial shocks.

In order to decide with whom, and in what, to invest, the council needs to have regard to an organisations credit rating.

Investments, and organisations, are given a rating by agencies. This rating helps potential investors to identify the risks associated with investment.

Treasury Activity & Risk Management

Getting Advice

Local authorities **must** make their own investment decisions, but, given the potentially specialised knowledge and skill required to deliver an effective treasury management service many employ an external firm of advisors to support them.

Such advisors give regular advice on:

- compliance with the Code;
- technical accounting issues;
- counterparty analysis;
- views on the direction of interest rates; and
- assistance in formulating and monitoring treasury management strategies, policies and practices.

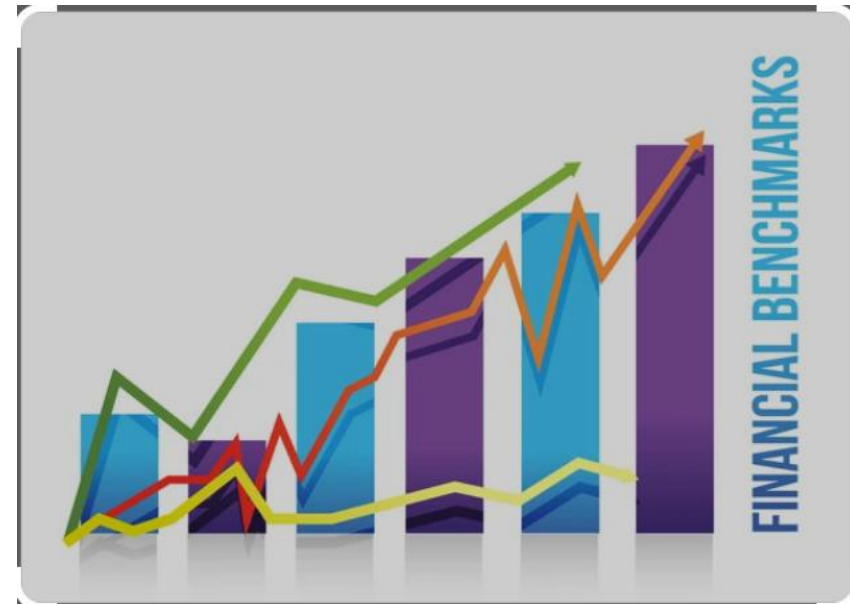


Treasury Activity & Risk Management

Benchmarking & Performance Measurement

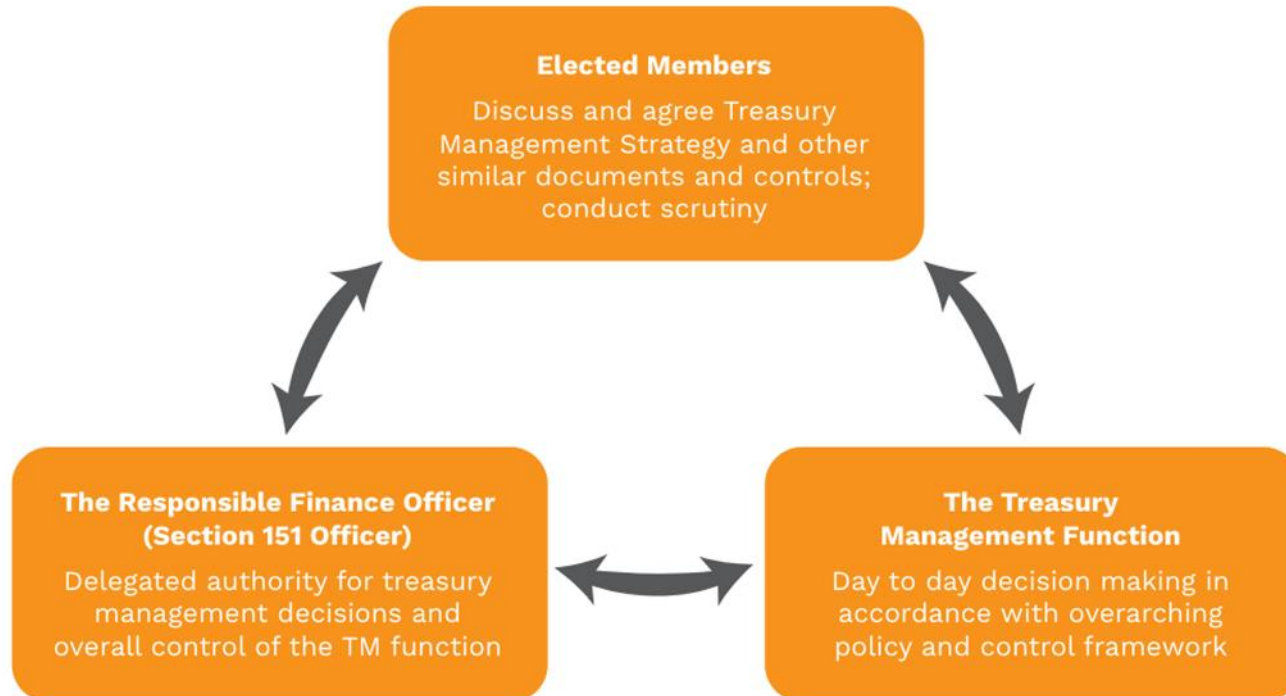
CIPFA conducts a benchmarking service which is useful for high level comparison and review. However, direct comparison with peers can be misleading at lower levels. Each council is responsible for its own appetite for risk, as defined within their annual treasury management strategy.

The CIPFA Codes specify a series of indicators designed to agree parameters for the treasury management activity at the Council, assisting in the management of risk and the assessment of performance. These indicators provide a good starting point for councillors seeking to get to grips with the basics, before more detailed questions are asked of officers.



Treasury Activity & Decision Making

A range of individuals are involved in making decisions. In many ways, treasury management decisions are made in a similar manner to other decisions at the authority. This can be illustrated by the following diagram.



Treasury Management – Independent & Effective Assurance

As the nominated committee, the Audit Committee has responsibility for ensuring independent and effective assurance over the adequacy of the council's Treasury Management strategy, policies and practices and this should be undertaken in line with the Treasury Management Code of Practice.

This is an essential part of ensuring that local government remains transparent, accountable and open, resulting in improved public policies and services. It involves challenging assumptions and assessing what risks might arise from the implementation of a decision.

Treasury Management - Independent & Effective Assurance

For the assurance reviews to be effective, the approach needs to be that of a 'critical friend'. It is important to identify:

- where decisions could be improved; and
- how to prevent mistakes being made or repeated.

The focus should be on forward thinking and making positive comments and change suggestions.



Treasury Management – Independent and Effective Assurance

The independent and effective assurance review undertaken by the Audit Committee will be ‘pre-decision scrutiny’. This takes place before a decision is made.

Pre-decision scrutiny is best focused on key questions around decisions, implementation, risks and measures of success.

Audit Committee’s independent review provides the opportunity to:

- support treasury management policy;
- improve decision making;
- improve accountability and transparency.
- provide potential solutions before decisions are finalised; and
- improve knowledge and understanding of treasury matters amongst the members of the governing body

Member Training

Treasury management is a specialist area, as such committee members will need the right knowledge and skills to undertake their independent assurance role. Below is a list of key knowledge areas:

- Regulatory requirements
- Treasury risks
- The council's treasury management strategy
- The council's policies and procedures in relation to treasury management

To support you in your role as a `critical friend` of the council's treasury management policies and practices, a new online training module has been developed. Undertaking this training will provide you with the required knowledge, as described above to undertake your role effectively and support better governance.

Member Training

Members will receive a notification email to access the online training module.

Next steps:

1. The training will need to be completed by the 20 June 2024.
2. Audit Committee will receive the Treasury Management Outturn Report for consideration at its meeting on the 28 June 2024.
3. Council will receive the Treasury Management Outturn Report for consideration at its meeting on the 17 July 2024.*

Any finally, please remember.....

* *Date to be confirmed after May 22 Council meeting*

Coffee at the ready!!!!

