DERBY CITY COUNCIL

AUDIT AND ACCOUNTS COMMITTEE
25 JUNE 2009

ITEM 8

Report of the Corporate Director of Resources

Audit Commission Report: 'Risk and Return'

RECOMMENDATION

1.1 To note the recommendations applying to local authorities made by the Audit Commission in its report 'Risk and Return'.

1.2 To consider the extent to which Council members should be involved in treasury management investment and borrowing issues.

SUPPORTING INFORMATION

2.1 In March 2009, the Audit Commission published a report entitled Risk and return: English local authorities and the Icelandic banks. This was the outcome of its investigations into the losses claimed by 127 local authorities that had placed money with Icelandic banks before the collapse of these banks in October 2008.

2.2 Derby City Council had no deposits in Icelandic banks, and at the time of the collapse, these banks had already been removed from the Council's list of approved counterparties for investment purposes.

2.3 However, the Audit Commission' report has made a number of points relating to the control of treasury management that should apply to all local authorities. The Commission stated that in its view the best authorities:

- explicitly balance risk and reward
- review and scrutinise their treasury management policies and procedures regularly
- have well trained, professional staff and engaged elected members
- use a wide variety of source information to inform decision making.

2.4 It went on to recommend that local authorities should:

- set their treasury management framework so that the organisation is explicit about the level of risk it accepts, and about the balance between security, liquidity and yield.
- ensure that treasury management policies follow the revised CIPFA code of practice; are scrutinised in detail by a specialist committee of members; and are monitored regularly.
- ensure elected members receive regular updates on the full range of risks that the Council is being exposed to.

- ensure that the treasury management function is appropriately resourced, commensurate with the risks involved.
- 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.
- 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.
- use the fullest range of information before deciding where to deposit funds.
- be clear about the role of external advisers, and recognise that local authorities remain accountable for decisions made.
- look for economies of scale by sharing resources between authorities or with pension funds, while maintaining separation of those funds.

2.5 While none of these nine recommendations is binding it makes good sense for any local authority to seriously consider their implementation.

Derby City Council's Treasury Management Policy and Management Practice

2.6 Current treasury management practice at the Council is to report to Cabinet three times a year:

- at budget setting in March
- at the mid point of the financial year in October
- after accounts closure in July.

2.7 In terms of day-to-day investment of balances, officers make use of a list of counterparties that is updated weekly by the Council's treasury management advisers based on criteria approved by Cabinet.

2.8 Regarding borrowing, all the Council's current loans are taken from the Public Works Loan Board at fixed rates – we don't borrow at variable rates. In November 2008, we reported to Cabinet that it was desirable to reduce the Council's cash balances (to reduce the risk of losses arising from potential counterparty collapse) and borrowing ceased accordingly. As a result, the Council has now 'under-borrowed' by approximately £96m relative to the requirements of its capital programme. Any borrowing activity is conducted only after consultation with the Council's treasury management advisers.

2.9 The bulk of the Audit Commission's recommendations suggest that, in addition to the continuation of the practices outlined in paragraphs 2.6–2.8 above, Council members should become more involved in the scrutiny of the treasury management function. Specifically, it suggests that a specialist committee should scrutinise treasury management policy; that members of this committee receive training; and that Council members are given regular updates on treasury management issues.

2.10 Members of the Audit and Accounts Committee might therefore wish to consider the following:

- that treasury management reports be taken to the Audit and Accounts Committee on a regular basis
- that Committee members attend any training courses offered by the Council's treasury management advisers specifically geared at councillors.

- that any member expressing a preference be added to the distribution list of issues papers published by the Council's treasury management advisers.

For more information contact:	Ciaran Guilfoyle, Group Accountant – Technical, 01332 258464 e-mail ciaran.guilfoyle@derby.gov.uk
Background papers:	The Prudential Code for Capital Finance in Local Authorities, CIPFA
List of appendices:	Appendix 1 - Implications

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. The Council is obliged to set and review prudential indicators in order to comply with the Local Government Act 2003. Unless the Government uses its powers under Section 4 of that act, the Council is free to set any reasonable indicators consistent with its other policies.

Personnel

3. None.

Equalities impact

4. None.

Corporate objectives and priorities for change

5. The objectives of the Council's Treasury Management Strategy contribute to providing excellent and value-for-money services to the citizens of Derby.