



Leicester
City Council

**WARDS AFFECTED:
ALL WARDS (CORPORATE ISSUE)**

**PERFORMANCE AND VALUE FOR MONEY
SELECT COMMITTEE
CABINET**

**8th July 2009
13th July 2009**

GOVERNANCE OF INVESTMENTS – AUDIT COMMISSION REPORT

Report of the Chief Finance Officer

1. Purpose of Report & Background

- 1.1 The collapse of the Icelandic banks in October 2008 involved £954 million of local authority deposits. This has been the subject of a recent report by the Audit Commission entitled “Risk and Return” (“the Audit Commission’s report”). This report considers what changes we will need to make, particularly the role of members.
- 1.2 Regulatory changes are expected to follow and this report considers our likely response to these, including measures that are currently in place. A further report will follow later in the year to formally adopt measures in response to these regulatory changes.
- 1.3 Leicester City Council was not exposed to these losses; indeed it had stopped lending to Icelandic banks a year earlier and had become increasingly cautious from late 2007 onwards (see the 2008/09 Treasury Strategy).
- 1.4 The Council currently has £109 Million of investments.
- 1.5 The purpose of this report is to start to address the expected changes required.
- 1.6 Expected changes will not be substantial – the Council performs well in this area, and already complies with much of the expected good practice.

2. Recommendations

Cabinet and Select Committee are recommended to: -

- i. agree that our appetite for risk is low in the current financial climate, but that any change in this stance will be considered as part of the annual treasury strategy;
- ii. agree that scrutiny of the treasury position will be carried out by the Select Committee, to prevent overlapping in roles with the Audit Committee;
- iii. note that we are tightening procedures in the light of what we expect to be forthcoming guidance, and that routine information will be provided to the Council Lead for Finance and the Select Committee.

3. Report

- 3.1 The regulatory framework for treasury management in local government is established through a mix of primary legislation, regulations, statutory guidance and the Treasury Management Code of Practice (“the code”) issued by CIPFA.
- 3.2 We expect revised statutory guidance and a new code to be issued later this year and expect to respond to this by revising our Treasury Policy Document. This is the high level document that governs the overall conduct of treasury management, including how we control the risks that arise from investment decisions.
- 3.3 We may also need to revise our Treasury Strategy, which is the strategic plan that guides our borrowing and investment decisions in the current financial year.
- 3.4 The purpose of this report is to identify the issues that are significant for the City Council. These issues have been stated below. However, it is worth stating that the majority of councils acted responsibly and there was an element of bad luck. Even the Audit Commission itself found itself exposed to Icelandic Investments!
- 3.5 Local authorities will be expected to define more closely their appetite for risk, and to subject this decision to effective scrutiny. Hence, the recommendation to this report is explicit on this matter. The Council’s appetite for risk is defined by a number of considerations. In general we have a low appetite for risk and we shall treat the security of investments as being of paramount importance, especially in the current economic climate. We shall only invest with strong banks or those likely to receive Government support in the event that they ran into difficulties, and we shall avoid excessive concentrations of risk that arise, for example, from investing in too many banks in the same country.
- 3.6 We will ensure that we demonstrably have the capacity and capability to invest effectively and safely and will ensure appropriate training is provided to staff and to members.
- 3.7 We will ensure that we have demonstrably sound operational procedures.
- (a) Oversight at officer level has been reinforced. The treasury manager reviews a schedule of all investments made on each day and signs to record his satisfaction. The Head of Financial Strategy reviews this file monthly and the Chief Finance Officer reviews the month end portfolio of investments.
 - (b) In the present economic circumstances the Treasury Manager in consultation with the Chief Finance Officer tightly controls all individual lending decisions to commercial organisations on a case-by-case basis. When more normal conditions return investment decisions will be made without such direct control, reliance being placed on the approved lending list, and when that happens procedures will be put in place to ensure that we have responded to all known information; including last minute changes to credit ratings. The Cabinet Lead for Finance and Select Committee will be briefed informally on a monthly basis on all current investments,
 - (c) Our procedures will ensure that each member of staff understands their authority to act.
- 3.8 It is proposed that we strengthen arrangements for governance and scrutiny:
- (a) The Audit Commission report suggests that treasury management might be scrutinised by a Council’s audit committee. However, we propose the most appropriate committee to be Select Committee – it both scrutinises treasury strategy before it is presented to the Council in the annual budget and also reviews treasury performance.

- (b) We are proposing to prepare monthly investment statements, the main purpose of which will be to record new investments made and investments that have matured. These will also be presented to the Cabinet Lead and Select Committee.
- (c) Currently reports are taken to Scrutiny Committee twice a year. In addition they scrutinise the Treasury Strategy. The Audit Commission suggests that reports might be quarterly. It remains to be seen whether that will be necessary. Whilst the monthly investment statements will usually be brief they would be the natural place to address new issues of significance and allowing for these interim updates it may be appropriate to continue to prepare full reports twice a year.
- (d) The Audit Commission report stresses that scrutiny should be effective. On one side this will be addressed through the training offered to members of the scrutiny committee. On the other side it will be addressed by officers preparing reports that transparently highlight key issues such as the credit worthiness of investment counterparties and significant market developments.
- (e) The Council's Internal Audit Section reflects the significance of Treasury Management in frequent reviews. The Council's Audit Committee oversees the internal audit function.

4. **Financial and Legal Implications**

- 4.1 This report is solely concerned with financial issues. Peter Nicholls, Legal Services has been consulted as Legal Advisor and has confirmed that there are no legal issues arising from this report.

5. **Other Issues**

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	No		
Policy	No		
Sustainable and Environmental	No		
Crime and Disorder	No		
Human Rights Act	No		
Elderly/People on Low Income	No		

6. **Background Papers**

- 6.1 Background information is available on the files of the Chief Financial Officer.

7. **Consultation**

- 7.1 Arlingclose Ltd (our treasury advisors).

8. **Author**

- 8.1 The author of this report is David Janes of the Resources Department on extension 7490

Mark Noble
Chief Finance Officer.

Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)