

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

22 November 2006

Report of the Director of Finance

Part 1- Public

Matters for Recommendation to Council

1 GOVERNANCE ARRANGEMENTS FOR THE INTERNAL MANAGEMENT OF INVESTMENT FUNDS

This report identifies the governance arrangements considered necessary in the event that funds available for more than one year were withdrawn from external management and managed internally.

1.1 Introduction

1.1.1 Significant changes to the Council's Treasury Management Strategy Statement and Investment Strategy for 2006/07 were endorsed by Cabinet on 6 September 2006. Members may recall that these changes were instigated in response to advice received from our Treasury Advisor and the external Fund Manager on how best to provide the added flexibility that was necessary in order to enhance returns on our cash flow and longer term investments.

1.1.2 At that same meeting I was tasked with bringing forward to Cabinet proposals for governance arrangements as a pre-requisite to making any tactical withdrawal from our external Fund Manager.

1.2 Governance Arrangements

1.2.1 Members may recall that when the revised CIPFA Treasury Management Code of Practice was adopted in July 2003, there was a requirement to adopt the twelve Treasury Management Practices (TMP's) set out there in. These TMP's and the supporting procedures were intended to provide the basis of sound governance for the operation of the treasury function. They were implemented within my Service in 2003 and have proved to be robust and effective.

1.2.2 In response to the instruction from Cabinet to bring forward governance arrangements, it now seems appropriate to bring forward these TMP's, suitably amended to reflect the added flexibility referred to in the introduction of this report for consideration and adoption by Council. Accordingly a copy of the proposed TMP's is set out for consideration at **[Annex 1]**.

- 1.2.3 Within the TMP's there are many references to supporting information and procedures. I suspect that members would not wish to be burdened with considering that level of detail at this time and these have not, therefore, been included in a supporting annex. Should Cabinet so wish, these could be considered in detail by a future meeting of the Finance and Property Advisory Board and copies or alternatively can be provided on request from my Exchequer Services Manager.
- 1.2.4 The two TMP annexes that are key to the effectiveness of the governance of investments in the more flexible environment created by the changes to the Investment Strategy are listed below and can be found at **[Annexes 2 and 3]**:
- Member Decision Making Structure
 - Officer Level Decision Making Structure
- 1.2.5 In respect of the second of these annexes, it should be noted that any decision to make a tactical withdrawal of funds from our external Fund Manager would be based on advice received from my Treasury Management Team and the Council's Treasury Advisor and would require my authorisation and that of the Chief Executive. Investment of those funds for periods of more than one year would also be subject to the same level of advice and authorisation. (For members' information, the Treasury Management Team comprises myself, the Chief Accountant and the Exchequer Services Manager. The Team meets at least on a quarterly basis, but it is usual for this to be more frequent dependent upon the prevailing and future market conditions, cash flow profiles and performance issues).
- 1.2.6 What **[Annex 3]** also demonstrates is the internal checks and balances that operate within Financial Services. Of key importance to treasury operations is that no single officer can initiate and execute an investment or drawdown of funds from the external fund manager.

1.3 Legal Implications

- 1.3.1 Under the Local Government Act 2003 the Council's Treasury Management Strategy and Investment Strategy have to be approved by full Council of which the TMP's form an integral part.

1.4 Financial and Value for Money Considerations

- 1.4.1 As was mentioned in the report to Cabinet on 6 September, the provision of added flexibility to the Council's Treasury Management Strategy and Investment Strategy for 2006/07 coupled with appropriate governance arrangements was designed to underpin and, if possible, to improve upon existing budgeted investment returns.

1.5 Risk Assessment

1.5.1 The risks associated with treasury operations are fully addressed within the Treasury Management Practices at **[Annex 1]** and the internal checks built into the treasury operation within Financial Services at **[Annex 3]**.

1.6 Summary

1.6.1 It is suggested that the TMP's now put before members together with the supporting annexes and the over arching Corporate Treasury Policy and the Annual Treasury Management and Invest Strategies will ensure that sufficiently robust governance arrangements continue to apply to the operation of the treasury management function.

1.6.2 Due to the technical nature of this document, I would be grateful if members could raise any **detailed questions** with the author of this report, John Pickup, in **advance of this meeting** so that these questions can be dealt with as comprehensively as possible.

1.6.3 Whilst writing, can I take the opportunity to remind members that I have arranged for our Treasury Advisor to give a presentation on the subject of Treasury Management on the evening of **Wednesday, 13 December**. All members are welcome to attend the presentation and will give everyone the opportunity to pose detailed questions to an independent expert.

1.7 Recommendations

1.7.1 It is **RECOMMENDED** that Cabinet recommend to Council that the:

- 1) Treasury Management Practices set out at **[Annex 1]** be adopted; and
- 2) That these Practices be reviewed on a not less than annual basis.

Background papers:

contact: John Pickup

Nil

Sharon J Shelton
Director of Finance