

Audit Committee

Treasury Management Update

Item no: 08

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Date: 24 March 2016
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Summary

This report provides the Audit Committee with an update on London Councils' treasury management strategy. London Councils' cash balances are held by the City of London under the service level agreement for the provision of financial support services. The investment of London Councils' cash balances are covered by the City of London's treasury management strategy as they are aggregated with the City of London's funds for investment purposes.

It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 was presented to their Financial Investment Board on 4 February 2016 for approval and will then be submitted to the Court of Common Council for formal adoption.

Recommendations The Audit Committee is asked:

- To note and comment on the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 which can be found at Appendix A.
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Background

1. London Councils treasury management procedures are carried out by the City of London under the terms of the service level agreement for financial and support services. London Councils' cash balances are pooled with the City of London's funds for investment purposes. It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities to comment on for feedback to the Chamberlain of the City of London.

City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17

2. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 was presented to their Financial Investment Board on 4 February 2016 for approval and will then be submitted to the Court of Common Councils for formal adoption.
3. The City of London adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which was revised in November 2009 following the problems with Icelandic Banks. The primary requirements of the revised code implemented by the City of London are the :
 - creation and maintenance of a treasury management policy statement which sets out the policies, objectives and approach to risk management of its treasury management activities.
 - creation and maintenance of suitable treasury management practices which set out the manner in which the City of London will seek to achieve those policies and objectives and prescribe how it will manage and control those activities.
 - receipt by the full Court of Common Council of reports on 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 covering activities during the previous year.
 - delegation by the Court of Common Council of responsibilities for implementing and regular monitoring of treasury management policies and practices and for the execution and administration of treasury management decisions.
 - delegation by the Court of Common Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the City the delegated body is the Audit and Risk Management Committee.
4. A full copy of the Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 report can be found at Appendix A.
5. The City of London provide London Councils with an indemnity against potential future losses of cash balances in the event of any losses incurred by the City itself. The City charges a premium of two basis points (0.02%) of the average balance of funds invested on behalf of third parties as compensation for taking on the risk of loss of capital and for providing such an indemnity. If the annual charge was applied to London Councils current average cash balance for 2015/16 of £16.3 million it would amount to £3,260.

6. As with previous years, the City of London's Creditworthiness policy is inconsistent with the approach suggested by CIPFA of using the lowest rating from all three main rating agencies to determine creditworthy counterparties (as detailed on the second paragraph of section 7.3 of Appendix A). Instead they use a risk weighted scoring system provided by the City's treasury adviser, Capita Asset Services.
7. The key areas of the Treasury Management Strategy Statement and Annual Investment Strategy are highlighted in the summary of the Chamberlain's cover report which is included at the first page of Appendix A.
8. Overall, the Director of Corporate Resources is satisfied that the City's treasury management function is run in a prudent manner and takes comfort from the indemnity against future capital losses which safeguards London Councils' funds.

Financial Implications for London Councils

As detailed in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A - City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17

Background Papers

Audit Committee working file 2015/16