

CABINET

2 July 2014

TREASURY MANAGEMENT SERVICE

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

This report presents proposals to progress partnership working with Hampshire County Council whereby the HCC Investments and Borrowing team would manage the Council's cash balance and undertake the investment of surplus cash or sourcing of short-term borrowing in accordance with Winchester City Council's agreed Treasury Management Strategy.

RECOMMENDATIONS:

1. That Cabinet approves the progression of the proposals as set out in the report.
2. That the final terms for an Agreement with Hampshire County Council for the delegation or discharge of Treasury Management functions in accordance with Winchester City Council's Treasury Management Strategy be determined by the Chief Finance Officer in consultation with the Portfolio Holder for Business Services and the Chairman of the Audit Committee.

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### TREASURY MANAGEMENT SERVICE

#### REPORT OF CHIEF FINANCE OFFICER

##### 1 Introduction

- 1.1 The Council continues to keep its service delivery models under review in order to provide the best possible service at the best possible cost. The Council's Treasury Management Service has recently been reviewed by the Chief Finance Officer and it is proposed to change the way in which it is delivered.
- 1.2 The Treasury Management Service operates in a highly regulated environment. The Council has adopted the CIPFA Prudential Code for Capital Finance in Local Authorities, which stipulates the minimum governance, reporting and operational standards. The Council complies with the Prudential Code in all respects.
- 1.3 Nevertheless the Council has limited resources; the roles of officers involved in the process are set out in the Treasury Management Practices and Procedures which are reviewed and approved at least annually by the Audit Committee. The activity involves an element of 3 main roles; the Chief Finance Officer, the Principal Accountant and the Corporate Accountant (Treasury). The Principal Accountant has recently left the Council and the post is under review, and the team has been operating in a turbulent banking environment for some years now.
- 1.4 Therefore the opportunity for the delegation of some of the functions to the treasury team at Hampshire County Council has been given serious consideration and it is now proposed to progress in this way.

##### 2 Proposal

- 2.1 Section 101(1) and (5) of the Local Government Act 1972 and S9EA and 9EB Local Government Act 2000 provide that the Council can delegate its functions to another Council or that two or more local authorities may discharge any of their functions jointly. Councils recognise that combining to jointly discharge certain functions has the potential to make service improvements and possibly efficiency savings. Delegation or discharge of functions in this manner does not require a formal procurement tendering process.
- 2.2 It is proposed that the HCC Investments and Borrowing team will manage the Council's cash balance and undertake the investment of surplus cash or

sourcing of short-term borrowing in accordance with Winchester City Council's agreed Treasury Management Strategy.

- 2.3 To enable this to happen the Council, would need to provide cash flow forecasts and access to bank accounts.
- 2.4 Under the proposed arrangements the Council will continue to be responsible, for the identification of the requirement for long-term borrowing and the sourcing of long-term borrowing.
- 2.5 The treasury service provided by HCC will at all times be compliant with current statutory legislation, CIPFA's Prudential Code for Capital Finance in Local Authorities and any other relevant guidance.
- 2.6 HCC staff would act as the 'Treasury dealer' to invest surplus cash and borrow short-term funds as necessary on behalf of WCC, ensuring that:
  - a) Investments may only be made in instruments issued by those counterparties selected in accordance with WCC's Treasury Management Strategy.
  - b) Cash will be managed with the aim that a nil aggregated fund balance is kept.
  - c) WCC's funds will at all times be held in fully segregated accounts.
  - d) Settlement and recordkeeping – investment payments made through WCC's online bank account will be recorded in a specialist treasury management record keeping system - Logotech.
  - e) Various Management information reports will be provided including:
    - o Weekly – details of investments
    - o Quarterly– revised forecast for interest earned on investments
    - o Year-end reporting – accrued interest due or owed
    - o Central Government reporting – monthly/quarterly borrowing and lending return to DCLG.
    - o Any changes to the agreed investment counterparty list will be immediately reported to the Executive Director at WCC.
    - o Ad hoc – by agreement
- 2.7 The HCC Investment and Borrowing team have recently taken on similar activities on behalf of New Forest District Council and the arrangements are working to the satisfaction of both parties. It is thought that similar arrangements could be operational for Winchester as soon as September this year.

### 3 Treasury Management Advisers

- 3.1 Both WCC and HCC currently contract with Arlingclose for Treasury Management expertise, consultancy and training. When the Council's existing contract ends it is expected that there would be an opportunity to access the same consultancy services under the HCC umbrella contract with Arlingclose at a reduced cost for the Council.

### 4 Staffing implications

- 4.1 Whilst there are some implications on the duties of the Corporate Accountant (Treasury) it is currently not considered that there are any TUPE implications arising from this proposal. The post will still be required in the establishment.

### OTHER CONSIDERATIONS:

#### 5 COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 5.1 The effective delivery of treasury management services supports the efficient operation of the council and the safeguarding of public funds.

#### 6 RESOURCE IMPLICATIONS:

- 6.1 During 2013/14 nearly 100 Investment deals were undertaken, plus 65 recalls of liquid funds, at an average daily balance of £34m producing interest income of over £300k.
- 6.2 The costs and charges for the proposed service cannot be finalised until the specification has been finalised. It is expected that they could be covered by other savings within the Financial Services budget.

#### 7 RISK MANAGEMENT ISSUES

- 7.1 There is inherent risk associated with providing specialist services of this nature in a relatively small finance team. The most significant risk to the Council's treasury management service presently is that of potential service disruption in the event of key members of staff being unavailable. The proposal will mitigate this because HCC operate with a bigger, specialist team, and specialist software, which can therefore provide greater resilience.
- 7.2 To achieve the operational benefits the Council will need to delegate the operation of its bank account. This will be under strictly controlled conditions and the Council will maintain oversight.
- 7.3 No Treasury management activity is without risk and the effective identification and management of risk are integral to effective treasury management objectives. Compliance with the Prudential Code helps to mitigate such risks. The City Council will set the Treasury Management Strategy so that it controls its exposure to investment risk.

BACKGROUND DOCUMENTS: None