

RESPONSE TO COMMUNITIES AND  
LOCAL GOVERNMENT SELECT  
COMMITTEE,  
SEVENTH REPORT OF SESSION  
2008-09,  
LOCAL AUTHORITY INVESTMENTS

**September 2009**

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the only UK professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation of a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. Our in-house CIPFA Education and Training Centre delivers the range of our programmes at locations across the UK, and works with other places of learning to provide our courses locally. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with governments, accounting bodies and the public sector around the world to advance public finance and support its professionals.

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## 1. **Introduction**

- 1.1. CIPFA was grateful for the opportunity to input to the Select Committee's inquiry and welcomes the Select Committee's report and in particular its support for the measures proposed in the recent Treasury Management Bulletin produced by the Treasury Management Panel. Robust scrutiny of treasury management within local authorities is vital in making sure that taxpayer's money is managed effectively and safely.
- 1.2. CIPFA will be producing a revised Treasury Management Code in the autumn, which will incorporate specific points relating to the Select Committee's recommendations. The proposed changes to the Code are currently the subject of consultation.
- 1.3. This response has been discussed with the Audit Commission and Communities and Local Government, both of which will be responding separately to the Select Committee.
- 1.4. Please find attached a more detailed response to each of the recommendations addressed to CIPFA in the report in the table on the following pages.

Recommendation from Select Committee (including paragraph number)	CIPFA Response
<p>1. One of the objectives of the CIPFA Codes and Codes of Practice should be to ensure that all local authorities are aware of the level of expertise which is necessary to run a successful treasury management operation, and have all the checks and balances in place to ensure adequate monitoring, on an ongoing basis, of both the framework within which its treasury management team operates and the individual decisions which are made on a day-to-day basis. <b>(Paragraph 49)</b></p>	<p>The existing code's Treasury Management Practices (TMPs) include a section TMP5 which covers organisation, clarity and segregation of responsibilities, and dealing arrangements, TMP10 covers staff training and qualifications and TMP12 covers corporate governance. The objective of specifying these practices is to ensure that organisations have the necessary skilled staff, procedures and governance arrangements in place to operate an effective and robust treasury management system.</p>
<p>2. We recommend that the Government, CIPFA and the LGA study ways in which local authorities, particularly smaller ones, could join together to share expertise and pool treasury management resources. The sharing of information and expertise, such as identifying banks that are in the same financial group, might have lessened the failures that occurred during the Icelandic crisis. <b>(Paragraph 56)</b></p>	<p>CIPFA encourages the sharing of information and expertise and already runs the Treasury Management Forum, whose core objectives are:</p> <ul style="list-style-type: none"> <li>• to create a national Forum where the major treasury management issues of the day can be discussed and debated in an impartial and informed environment; and</li> <li>• to provide a local Network to connect participants with good practice through the dissemination of timely and authoritative information and knowledge amongst practitioners in the treasury management field.</li> </ul> <p>In addition there are various regional groups whose remits includes treasury management.</p> <p>The LGA is working with local authority treasurers and the New Local Government Network to explore the potential for joint money market institutions.</p>

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<p>3. We endorse the Minister’s suggestion and recommendations by CIPFA and the Audit Commission that all local authorities should have an Audit Committee with specific responsibility for the scrutiny of the treasury management function. Guidance to local authorities to that effect should be given through appropriate amendment to the CIPFA Codes. <b>(Paragraph 68)</b></p>	<p>The importance of the scrutiny function is to be stressed in the revised code and it will be suggested that each authority appoints a responsible Committee, such as a finance scrutiny committee or audit committee, to take on the role of the scrutiny of treasury management.</p>
<p>4. Members of audit committees need to take their responsibilities for that scrutiny seriously and need to ensure that they are properly trained. The CIPFA Treasury Management Code of Practice should make explicit the need for specific training in treasury management to be undertaken by those councillors with responsibility for overseeing treasury management arrangements, and the Audit Committee should be charged with ensuring that it is available and with monitoring its adequacy. <b>(Paragraph 69)</b></p>	<p>The Code will stress, by expanding TMP10 the requirement for members with treasury management responsibilities to have access to appropriate training in order for them to fulfil their duties effectively.</p>
<p>5. Whether a local authority has an Audit Committee or not, elected members should ensure that they pay proper attention to scrutiny of the Annual Investment Strategy (AIS), and of the decisions which are taken under it. We recommend that CIPFA, in reviewing its Codes, consider what further guidance is necessary to local authorities to ensure that elected members are given—and take—appropriate opportunities to scrutinise their AIS.</p> <p>We also recommend that CIPFA develop and include in its revised Codes more rigorous requirements for reporting to elected members on decisions taken by officials under the AIS. <b>(Paragraph 71)</b></p>	<p>The importance of the scrutiny function will be stressed in the revised code. The function including examination and challenge of the Annual Investment Strategy will be the responsibility of a named Committee.</p> <p>The revised Code will require an additional mid year treasury management operations report in addition to the current requirement for two reports.</p>

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<p>6. ...We also recommend that the CIPFA Codes include guidance to local authorities on the nature of credit ratings, highlighting the risks of over-reliance on them. Credit ratings should not be used in isolation as a justification for the soundness of an investment and local authorities should be made aware of the fact that credit ratings should be viewed within the context of wider financial and economic information and advice. <b>(Paragraph 81)</b></p>	<p>The revised Code will emphasise the requirement to consider all information available in the market place and not to simply rely on credit ratings as the sole indicator of credit worthiness.</p>
<p>7. The involvement of treasury management advisers in local authority treasury management will only be valuable if local authorities understand the level of service they require, and if the advisers themselves are clear about the level of service they are providing. Treasury management advisers must decide, define and communicate what services they are providing clients, particularly in relation to the provision of "information" and/or "advice". The local authority itself nevertheless remains ultimately responsible for any investment made, and <b><i>CIPFA should warn local authorities about over-reliance on treasury management advisers, whose services have been shown to be variable and, in some cases, inadequate.</i></b> <b>(Paragraph 100)</b></p>	<p>The guidance will confirm that responsibility for treasury management cannot be delegated to third parties and that organisations should be clear about the nature and parameters of the services provided by external providers and that they meet the authority's needs.</p>
<p>8. We recommend that the CIPFA Codes give more detailed advice to local authorities on the services which they may expect to receive from treasury management advisers, and how to use them effectively. The guidance should make clear that such advisers may give varying types and levels of information or advice. <b>(Paragraph 105)</b></p>	<p>The guidance will confirm that organisations should be clear that services provided by external providers meet their needs.</p> <p>CIPFA is in discussions with the FSA about the production of a Treasury Management Bulletin which will provide information to local authorities on the services provided by advisers. Once this is completed CIPFA will review whether any additional guidance is required.</p>

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<p>9. <i>...The Audit Commission, CIPFA and the FSA must all re-examine the role and reliability of treasury management advisors and their discharge of duties of care for local authorities in managing this aspect of treasury management.</i> <b>(Paragraph 121)</b></p>	<p>CIPFA considers that the regulation of treasury management advisers should be within the remit of the FSA. The Treasury Management Bulletin with the FSA will also include the background to the regulatory framework for treasury management advisers.</p>
<p>10. We recommend that CIPFA add to the issues that need to be covered in a local authority's annual investment strategy (AIS) the use, or not, of an external advisor; schemes of delegation and the role of the Section 151 officer; and the use of and procedures regarding credit rating agencies. The guidance need not be prescriptive about the way in which the AIS should address these issues, but it should ensure that proper attention is paid to these previously under-scrutinised areas. <b>(Paragraph 141)</b></p>	<p>The AIS is required under the CLG investment guidance, which specifies its contents. There are also reporting requirements contained within the CIPFA Code. CLG and CIPFA are working together in reviewing their guidance to ensure that they are complementary and comprehensive.</p>
<p>11. We seek reassurance that regular meetings at an appropriately senior level are held between the Audit Commission, the local authority associations, CIPFA and CLG to ensure that the treasury management system is kept under review. We also recommend that these meetings include links with the financial regulatory bodies—the Financial Services Authority and the Bank of England—to ensure consistent and up-to-date information is passed onto these bodies. <b>(Paragraph 156)</b></p>	<p>The Audit Commission, CLG and the FSA are members of CIPFA's Treasury Management Panel.</p> <p>CIPFA, CLG and the Audit Commission are represented on the Capital Programmes Working Party (CPWP), which is a forum for the discussion of capital finance, treasury management, accounting and related issues. Also represented on the group are HM Treasury, other Government departments, the Local Government Association, London Councils, the Welsh Assembly Government and the Scottish Government. The Public Works Loans Board also participates in discussions relevant to its functions. The CPWP meets at least twice a year and is chaired by a CLG official. CPWP has a Technical Sub Group which meets to consider changes to capital finance legislation and codes.</p>