AUDIT COMMISSION NATIONAL REPORT: RISK AND RETURN

LEAD OFFICER:	Julie Crellin, Head of Finance and Management Information Systems
REPORT AUTHOR:	Marilyn Robinson, Audit and Fraud Prevention Manager

Summary: To present the Audit Commission's national report "Risk and Return: English Local Authorities and the Icelandic Banks", which relates to Treasury Management in Local Authorities.

Recommendation: That Members consider the findings of the Audit Commission report, the recommendations made for best practice in treasury management and the Council's treasury management arrangements.

1.0 INTRODUCTION

1.1 Members will remember the turbulence within international financial markets during the autumn of 2008. The collapse of the Icelandic banks, and their UK subsidiaries, in October 2008, resulted in £954 million of public money being put at risk (3.1% of the value of their total investments). The Audit Commission national report "Risk and Return: English Local Authorities and the Icelandic Banks", published at the end of March 2009, has reviewed treasury management arrangements, with the benefit of hindsight, to identify what went wrong, the lessons learned and to make recommendations to improve the management of taxpayers' money.

1.2 Treasury Managers are charged with maintaining the security and liquidity of an organisation's cash assets, while generating a yield or return on that money. Local Authorities draw a valuable income from interest earned on surplus cash, by placing it on deposit in bank or building society accounts or in money market investments. The focus of this report is on Local Authorities' arrangements for placing and managing cash on deposit or in investments. It does not cover treasury management arrangements for borrowing or managing debt. Nor does it consider the performance of external treasury advisers, brokers or credit rating agencies.

2.0 KEY FINDINGS

2.1 A summary of the report, extracting the key messages, lessons learned and recommendations for improving treasury management processes, is attached at Appendix A. The Audit Commission report is available for circulation and will be provided to the Committee as background information.

2.2 The summary was included in a report to Executive at its meeting of 25th August 2009 which considered the performance of the Council's treasury management function in 2008/09, in line with best practice. Members of this Committee need to consider the summary of the report from the point of view of risk management arrangements and best practice in this area. Appendix B details this Council's arrangements.

3.0 CONCLUSION

3.1 The Audit Commission report concludes that :-

- Many Authorities have acted prudently and balanced their risks. Others have been less cautious, by following ratings exclusively and perhaps striving to achieve a high yield (because of performance and budget pressures), without due regard to the risks involved. A small group of Authorities has been negligent in their stewardship of public funds.

- The overarching treasury management framework is the right one. Authorities should remain in control of their own funds within a national prescribed structure. The current structure has gaps but the system can be adjusted, rather than replaced.

- If Authorities are going to deposit cash in the commercial sector, to benefit from the higher rates of interest available, then they must ensure that their treasury management is properly resourced, managed and scrutinised. The full range of risks need to be recognised and managed.

- There is always a risk that a commercial bank will collapse. Local Authorities may, as a consequence, lose money. However, with a better approach to managing their deposits, the chances of suffering such a loss can be reduced.

4. RECOMMENDATION

4.1 It is recommended that Members consider the findings of the Audit Commission's report and note the recommendations for best practice, as detailed in Appendix A.

4.2 Appendix B summarises the Treasury Management practice undertaken by the Council in comparison with the Audit Commissions' recommendations. The review of the Treasury Management function during 2009/10 is included in the Audit Plan and the outcome will be reported to the Audit Committee.

List of Appendices:
Appendix A - Summary of the Audit Commission report – "Risk and Return: English Local Authorities and the Icelandic Banks"
Appendix B – Copeland Treasury Management Function

List of Background Documents: Audit Commission report: Risk and Return: English Local Authorities and the Icelandic Banks

Officers Consulted: Corporate Team

RISK AND RETURN: English Local Authorities and the Icelandic Banks

The following is a summary of the above report, published by the Audit Commission in March 2009. The summary extracts the key messages, lessons learned and recommendations for improving treasury management processes.

1.0 INTRODUCTION

1.1 The collapse of the Icelandic banks, and their UK subsidiaries, in October 2008, resulted in £954 million of public money being put at risk (3.1% of the value of their total investments). This report has reviewed treasury management arrangements, with the benefit of hindsight, to identify what went wrong, the lessons learned and to make recommendations to improve the management of taxpayers' money.

1.2 Treasury Managers are charged with maintaining the security and liquidity of an organisation's cash assets, while generating a yield or return on that money. Local Authorities draw a valuable income from interest earned on surplus cash, by placing it on deposit in bank or building society accounts or in money market investments. The focus of this report is on Local Authorities' arrangements for placing and managing cash on deposit or in investments. It does not cover treasury management arrangements for borrowing or managing debt. Nor does it consider the performance of external treasury advisers, brokers or credit rating agencies.

2.0 KEY MESSAGES

- **The national treasury management framework is broadly right.** The investment framework requires that Local Authorities should invest prudently and should primarily seek to safeguard public funds rather than to maximise returns. However, the framework has weaknesses, which have contributed to poor practice:

    - Statutory guidance gives weight to credit ratings but not to other relevant information (and no advice on other potentially useful sources of information is provided).

    - The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance gives insufficient attention to risks which may be inter-related, for example banks in the same group or country.

    - More guidance is needed about how to manage the full range of risks .

- **The best organisations balance risk and reward and arrangements include:**
    - regular review and scrutiny of policy and procedures;
    - appropriately trained staff and engaged elected Members; and
    - the use of a wide range of information including, but not limited to, credit ratings.
- **Poorer performing organisations:**
    - have weak governance;
    - depend exclusively on credit ratings; and
    - have staff who are inadequately trained.

3.0 PRUDENT TREASURY MANAGEMENT BEHAVIOURS

The following characteristics were identified:

Characteristic	Prudent Behaviour
Attitude to risk	Cautious. Recognise the need to own all risk-reward decisions and the need to maintain a questioning, challenging mindset.
Approach to risk management	Manage risk proactively: • invest funds with riskier counterparties only for short periods of time; • consider the possibility of breaking a deposit before maturity; • manage the counterparty list without waiting for a rating downgrade; and • consider country limits for counterparties.
Use of credit ratings	Recognise that credit ratings and comments from advisers are merely one source of information that can be used to build an understanding of risks in the markets and with counterparties.

Characteristic	**Prudent Behaviour**
Governance and scrutiny	Elected Member oversees finance function, takes an interest in the treasury policy and challenges assumptions built into the limits and minimum credit criteria. Finance staff proactively approach elected Members and provide briefings on key issues relevant to the treasury policy, including risk limits. Elected Members are able to provide robust challenge to the key policy parameters.
Use of information	Extensive. Includes actively researching counterparties and the markets.
Relationship with counterparties	Know the bankers that they are investing with.
Reliance on yield	Prioritise security and liquidity above yield. Maintain a balance between security, liquidity and yield by investing short-term where risk dictates. For some, it is rare to invest for longer than three months.
Achievement of security and liquidity	Carry out scenario testing to ensure that the sensitivity of the portfolio to the market is understood. Normal expectation is for specified investments of six months or less.
Resource management, staff development and expertise	Allocate the equivalent of at least one full-time member of staff to the role of investing funds and performing research into counterparties and investment instruments. Actively encourage networking and training.

Characteristic	Prudent Behaviour
Resource management, staff development and expertise (Cont'd)	Staff gather information about the markets and counterparties that includes: • reviewing information and credit measures available from all rating agencies; • actively seeking out information available from newspapers and the internet; and • looking into other measures of risk.

4.0 RECOMMENDATIONS

4.1 **Central Government should:**

- Review and revise the weaker aspects of the national framework highlighted above, especially the weight given to credit rating;

- Enable and require the Debt Management Office to provide deposit accounts to public bodies, if those bodies cannot achieve the security they require in the market; and

- Review the cost of early repayment of debt to the Public Works Loans Board, to ensure that it is not acting against the wider public interest by encouraging authorities to hold unnecessarily large cash deposits.

4.2 **CIPFA should:**

- Revise and tighten its Code of Practice for Treasury Management to take account of the findings in this report;

- Make more explicit the element of the prudential code that allows loans to be drawn down ahead of actually spending the money. Loans should be drawn down only after risks are fully assessed;

- Continue to work with the Association of Corporate Treasurers to develop appropriate training and qualification for those working in treasury management in Local Authorities; and

- Co-ordinate information sharing between Local Authorities, to enable them to learn from one another. Any benchmarking activities should, as a minimum, highlight measures of security and liquidity of funds as well as yield.

4.3 **Local Authorities should:**

- Set the treasury management framework so that the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved. At the highest level, the organisation should decide whether it has:
    - appetite and capability to be able to manage risk by placing funds with financial institutions; or
    - no appetite and/or insufficient capability to manage the risk of placing funds in the market and should, instead, place funds with the UK government's Debt Management Office;
- Ensure that treasury management policies:
    - follow the revised CIPFA Code of Practice;
    - are scrutinised in detail by a specialist committee, usually the Audit Committee, before being accepted by the Authority; and
    - are monitored regularly;
- Ensure elected Members receive regular updates on the full range of risks being run;
- Ensure that the treasury management function is appropriately resourced, commensurate with the risks involved. Staff should have the right skills and have access to information and external advice;
- Train those elected Members of Authorities who have accountability for the stewardship of public money, so that they are able to scrutinise effectively and be accountable for the treasury management function;
- Ensure that the full range of options for managing funds is considered (for example, it is sometimes possible to request the return of a deposit before the maturity date – although there may be payment of a penalty) and note that early repayment of loans, or not borrowing money ahead of need, may reduce risks;
- Use the fullest range of information before deciding where to deposit funds;

- Be clear about the role of external advisers and recognise that Local Authorities remain accountable for decisions made; and

- Look for economies of scale by sharing resources between Authorities or with pension funds, while maintaining separation of those funds.

4.4 **The Audit Commission will:**

- Ask their auditors to follow up this report, as part of their Use of Resources work;

- Work with CIPFA to ensure that the lessons learned are included in the revised treasury management guidance; and

- Work with others to produce guidance and tools for those in Councils with a need to understand the treasury management function.

5.0 <u>CONCLUSIONS</u>

5.1 Many Authorities have acted prudently and balanced their risks. Others have been less cautious, by following ratings exclusively and perhaps striving to achieve a high yield (because of performance and budget pressures), without due regard to the risks involved. A small group of Authorities has been negligent in their stewardship of public funds.

5.2 The overarching treasury management framework is the right one. Authorities should remain in control of their own funds within a national prescribed structure. The current structure has gaps but the system can be adjusted, rather than replaced.

5.3 If Authorities are going to deposit cash in the commercial sector, to benefit from the higher rates of interest available, then they must ensure that their treasury management is properly resourced, managed and scrutinised. The full range of risks need to be recognised and managed.

5.4 There is always a risk that a commercial bank will collapse. Local Authorities may, as a consequence, lose money. However, with a better approach to managing their deposits, the chances of suffering such a loss can be reduced.

Audit Commission National Report on Risk and Return **APPENDIX B**

Arrangements at Copeland Borough Council

Characteristic	**Prudent Behaviour**	**Arrangements at Copeland Borough Council**
Attitude to risk	Cautious. Recognise the need to own all risk-reward decisions and the need to maintain a questioning, challenging mindset.	Cautious, as demonstrated by 09/10 Treasury Management (TM) strategy which, whilst setting out wide criteria for available counter-parties which could be used under normal market conditions, also set out, in response to the exceptional market conditions, temporary restrictions on further investment activity. The Council recognises the need to continually monitor and, where appropriate, revise its TM activities in response to risk.
Approach to risk management	Manage risk proactively: • invest funds with riskier counterparties only for short periods of time; • consider the possibility of breaking a deposit before maturity; • manage the counterparty list without waiting for a rating downgrade; and • consider country limits for counterparties.	Risk is managed proactively: • Risk is a key consideration when deciding duration of investment of funds with counterparties. Time limits for investments on the Council's counterparty list are set out in para.22 of the TM Strategy 09/10; the longer the investment, the higher the rating criteria. • Both investments and the Counterparty list are continually monitored in terms of changes in ratings, industry developments etc, e.g. when the Britannia Building Society's rating was withdrawn in August the possibility of breaking the Council's deposit before maturity was considered. The option was rejected on the grounds of deemed risk being limited (the re • ason for the rating withdrawal was the merger of the entity with Co-op bank) and the potential penalities of early withdrawl. • The removal of one of the credit ratings (Fitch)

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Characteristic	Prudent Behaviour	Arrangements at Copeland Borough Council
		of the National Westminster bank in March 2009 was reported to the portfolio holder by the Head of Finance and the steps taken to minimise the funds we held with the National Westminster Bank (daylight exposure) through the use of a AAA rated Money Market Fund. • The Council has chosen to invest with UK counterparties only.
Use of credit ratings	Recognise that credit ratings and comments from advisers are merely one source of information that can be used to build an understanding of risks in the markets and with counterparties.	CBC recognise that credit ratings and comments from advisers are merely one source of information that can be used to build an understanding of risks in the markets and with counterparties. The Council has for many years engaged specialist treasury consultants to assist with this task through the provision of daily market intelligence, however, the treasury section is also in daily contact with the financial markets through conversations with brokers and other market participants, information on money market rates from a variety of institutions and the financial press. All these sources help to inform any decisions made.
Governance and scrutiny	Elected Member oversees finance function, takes an interest in the treasury policy and challenges assumptions built into the limits and minimum credit criteria.	Formalised provision of TM information to Members: The revenue implications of the treasury function are reported quarterly to the Executive as part of the Revenue and Capital monitoring process. In addition, the more detailed the Investment Strategy and the Treasury Management Annual Report are presented to members in February and September of each year in

Arrangements at Copeland Borough Council

Characteristic	Prudent Behaviour	Arrangements at Copeland Borough Council
	Finance staff proactively approach elected Members and provide briefings on key issues relevant to the treasury policy, including risk limits. Elected Members are able to provide robust challenge to the key policy parameters.	line with the requirements of the CIPFA Code. Budget preparation for 2009/10 for example made specific reference to the decline in interest rates and the potential impact of this. Training: in March, the Head of Finance arranged a half day overview session on Treasury Mgmt run by the Council's TM advisers, Butlers. A number of elected Members who had accountability for the stewardship of public money were invited to attend. Training for members and Finance staff is an ongoing consideration and it is recognised that further training for Members, particularly the Audit Committee, would enhance their ability to scrutinise effectively and be accountable for the treasury management function. Further training for members, either in conjunction with Butlers or internally provided, is in the process of being arranged. The TM advisers have in this month, offered to provide a specific Member training session and this will be followed up.
Use of information	Extensive. Includes actively researching counterparties and the markets.	Extensive, relative to the scope of available resources. The size of the Authority, level of funds being invested and perceived risks surrounding the TM function are such that allocating the resource required to independently 'actively' research counterparties and the

Arrangements at Copeland Borough Council

Characteristic	Prudent Behaviour	Arrangements at Copeland Borough Council
		markets is neither practical or good value for money. Instead, as noted above, the authority has for many years engaged specialist treasury consultants to assist with this task through the provision of daily market intelligence. The treasury section is also in daily contact with the financial markets through conversations with brokers and other market participants, information on money market rates from a variety of institutions and the financial press. All these sources help to inform any decisions made. Finance Officers meet with potential counterparties on an ad hoc basis, e.g. in August, Officers met with the representative of a bank offering its services as a counterparty.
Relationship with counterparties	Know the bankers that they are investing with.	As noted above, Finance Officers meet with potential counterparties on an ad hoc basis. The Council maintains a close relationship with its bank – Finance Officers met with the Relationship Manager in April.
Reliance on yield	Prioritise security and liquidity above yield. Maintain a balance between security, liquidity and yield by investing short-term where risk dictates. For some, it is rare to invest for longer than three months.	As set out in the 2009/10 Statement, the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. It should be remembered that the definition of treasury management incorporates not just ''the effective control of the risks associated with (management of cash flows and other money market transactions) but also 'the

Arrangements at Copeland Borough Council

Characteristic	Prudent Behaviour	Arrangements at Copeland Borough Council
		pursuit of optimum performance consistent with those risks' and the statement therefore recognises the importance of maximising the return from investments consistent with the security of sums invested. Local authorities are not allowed to use many of the more complex financial products that have caused so much damage in the financial markets in the past two years. The authority has, however, been a short term investor in the financial markets for many years and these activities have long made a positive contribution to the authority's financial performance. Investment periods vary depending on perceived risk of investments, considerations of possible changes in rates and cash flow requirements. The Council generally invests for periods between 3 months and up to 1 year. It is worth noting that, had the Council not made a number of longer (i.e. > 3 month) term investments 07/08 and 08/09, the impact of the 'credit crunch' on investment yield would have been more significant.
Achievement of security and liquidity	Carry out scenario testing to ensure that the sensitivity of the portfolio to the market is understood. Normal expectation is for specified investments of six months or less.	This recommendation is more appropriate to large public sector bodies who invest and borrow to a degree of complexity greater than we require. As noted above, the size of the Council, level of funds being invested and perceived risks surrounding the TM function are such that allocating the resource required to undertake scenario testing is viewed as neither

Arrangements at Copeland Borough Council

Characteristic	Prudent Behaviour	Arrangements at Copeland Borough Council
		practical nor good value for money. The use of specialist advisers, combined with a prudent approach to selecting and placing investments with counterparties, as set out in the attitude to risk and approach to risk management sections, provides comfort with regards to mitigation of risk and the balance with achievement of security and liquidity. As also noted above, investment periods vary depending on perceived risk of investments, considerations of possible changes in rates and cash flow requirements. Risk is a key consideration when deciding duration of investment of funds with counterparties. Time limits for investments on the Council's counterparty list are set out in para.22 of the TM Strategy 09/10; the longer the investment, the higher the rating criteria. The Council generally invests for periods between 3 months and up to 1 year. It is worth noting that, had the Council not made a number of longer (i.e. > 3 month) term investments 07/08 and 08/09, the impact of the 'credit crunch' on investment yield would have been more significant.
Resource management, staff development and expertise	Allocate the equivalent of at least one full-time member of staff to the role of investing funds and performing research into counterparties and investment instruments. Actively encourage networking and training.	Responsibilities for TM are clearly set out in job descriptions.See above sections for consideration of resource availability etc. Following the filling of key vacancies, Copeland CBC is

Arrangements at Copeland Borough Council

Characteristic	Prudent Behaviour	Arrangements at Copeland Borough Council
		actively represented at the existing Cumbria Finance Groups. There is no specific group for Treasury Officers and this could be explored through the County Chief Finance Officers Group, which meets quarterly.
Resource management, staff development and expertise (Cont'd)	Staff gather information about the markets and counterparties that includes: • reviewing information and credit measures available from all rating agencies; • actively seeking out information available from newspapers and the internet; and • looking into other measures of risk.	The Council has for many years engaged specialist treasury consultants to assist with this task through the provision of daily market intelligence. The treasury section is also in daily contact with the financial markets through conversations with brokers and other market participants, information on money market rates from a variety of institutions and the financial press. All these sources help to inform any decisions made. The Head of Finance, Accountancy Services Manager and the Senior Accounting Officer who has specific TM responsibilities regularly converse on general TM/market information from CIPFA and LG trade press.

Arrangements at Copeland Borough Council

	Audit Commission Recommendations for Councils	Action by Copeland Borough Council
1	Set the treasury management framework so that the organisation is explicit about the level of risk it accepts and the balance between security and liquidity and the yield to be achieved. At the highest level, the organisation should decide whether it has: - appetite and capability to be able to manage risk by placing funds with financial institutions; or - no appetite and/or insufficient capability to manage the risk of placing funds in the market and should, instead, place funds with the UK government's Debt Management Office.	The Council's treasury management framework is set out in the Treasury Management Strategy and Investment Strategy Statement which is prepared annually and approved by Executive in February. The Statement is subject to constant review and, when necessary, adjustment, as evidenced by the update to the 2009/10 strategy set out in the Treasury Management Annual Report 2008/09 approved by Executive in August 2009. As set out in the 2009/10 Statement, the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. It should be remembered that the definition of treasury management incorporates not just ''*the effective control of the risks associated with (management of cash flows and other money market transactions)* but also '*the pursuit of optimum performance consistent with those risks'* and the statement therefore recognises the importance of maximising the return from investments consistent with the security of sums invested. Local authorities are not allowed to use many of the more complex financial products that have caused so much damage in the financial markets in the past two years. The Council has, however, been a short term investor in the financial markets for many years and these activities have long made a positive contribution to the Council's financial performance. Since the Icelandic bank collapse, the Council has reviewed its practices and procedures, as evidenced by the restrictions on the pool of available counterparties set out in the 2009/10 Statement.

Arrangements at Copeland Borough Council

	Audit Commission Recommendations for Councils	Action by Copeland Borough Council
		This is a regular and ongoing process, the more so in view of the turmoil in the world's financial markets. The option of placing funds with the Debt Management Office (DMO) through a Debt Management Account Deposit Facility (DMADF) is included in the Strategy. The DMO, being an arm of HM Treasury, is regarded as the safest haven for local authority funds. Yet even here, members need to be aware that there is a risk attached to this option in that the level of interest rates paid on such deposits is extremely low. The Council has a long standing custom and practice of placing investments only in UK based institutions, mainly banks and building societies. The actions that the UK Government has taken in the past year to support the country's banking and financial system through its well publicised rescue packages for RBS, HBOS and other financial institutions have indicated that it will indeed do 'whatever it takes', in the words of the Chancellor of the Exchequer, to support the system. To allow any UK based institution to fail now would, it may be argued, render worthless the huge package of measures already put in place to support the financial infrastructure in what remains one of the strongest economies in the world. For this reason, it is considered that the current option of placing the Council's surplus monies in a variety of UK based financial institutions, including other local authorities where appropriate, should continue, subject as ever to a proper assessment of the suitability of such institutions.

Arrangements at Copeland Borough Council

	Audit Commission Recommendations for Councils	Action by Copeland Borough Council
2	Ensure that treasury management policies: - follow the revised CIPFA Code of Practice; - are scrutinised in detail by a specialist committee, usually the Audit Committee, before being accepted by the Authority; and - are monitored regularly.	The Council's adopted the CIPFA Code of Practice on Treasury Management on 14th March 2002. The key treasury reports are the annual Treasury Management Strategy Statement, which incorporates the Investment Strategy and the Treasury Management Annual Report. These reports are compiled having reference to a template provided by the Council's specialist treasury advisers, suitably adapted for this Council. The reports accordingly follow the guidelines of the Code of Practice. The Annual Report for 2008/09 will be scrutinised by the Audit Committee and it is the intention that all future Treasury Management Reports will be presented to the Audit Committee. Treasury Management policies are monitored regularly as part of the Treasury Management function.
3	Ensure elected Members receive regular updates on the full range of risks being run.	The revenue implications of the treasury function are reported quarterly to the Executive as part of the Revenue and Capital monitoring process. In addition, as noted in 2 above, the more detailed the Investment Strategy and the Treasury Management Annual Report are provided in February and September of each year in line with the requirements of the CIPFA Code. Such reports would, if required, highlight any noteworthy aspects of the financial markets including any particular elements of risk. The annual Treasury Management Strategy Statement, which incorporates the Investment Strategy, must be approved by full Council as a part of the budget process.
4	Ensure that the treasury management function is appropriately resourced, commensurate with the risks involved. Staff should have the right skills and have access to information and external advice.	The treasury function within the Council is managed by an experienced full time officer for whom it is one of her major responsibilities. There are arrangements in place for cover during periods of leave and sickness and all staff involved in dealing

	Audit Commission Recommendations for Councils	Action by Copeland Borough Council
		have access to a variety of external advice and support through our treasury advisers (Butlers). Dealing procedure notes are available and were updated in July. Ensuring staff involved in dealing have the right skills is an ongoing consideration; all staff involved in dealing receive internal training from the officer managing the Treasury function as part of their induction. Training is also provided by Butlers on an ad hoc basis, e.g. • in March Butlers ran a half day overview session on Treasury Mgmt followed by a half day more detailed session. Both sessions were attended by the Finance team and Internal Audit. • the new Capital Accountant, who will is providing dealing cover, will be attending a 'Basics of Treasury Management Training' day run by Butlers on 16th September.
5	Train those elected Members of Authorities who have accountability for the stewardship of public money, so that they are able to scrutinise effectively and be accountable for the treasury management function.	As noted above, in March Butlers ran a half day overview session on Treasury Mgmt. A number of elected Members who had accountability for the stewardship of public money were invited to attend. As noted above, training is an ongoing consideration and it is recognised that further training for Members, particularly the Audit Committee, would enhance their ability to scrutinise effectively and be accountable for the treasury management function. The TM advisers have in this month, offered to provide a specific Member training session and this will be followed up.
6	Ensure that the full range of options for managing funds is considered (for example, it is sometimes possible to request the return of a deposit before the maturity date – although there may be payment of a penalty) and note that early repayment of loans, or not borrowing money ahead of need, may reduce risks.	This is reviewed on a regular basis. For example; • Deposits - the early return of a deposit before the maturity date was recently considered when the credit ratings agency Fitch withdrew the rating of Britannia Building Society. This course of action was not taken on the grounds that the rating

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	Audit Commission Recommendations for Councils	Action by Copeland Borough Council
		had been withdrawn as a result of the merger of the Society with Co-op Bank and the risk surrounding the investment was not deemed sufficient to warrant incurring the reputational damage and financial penalty which would result from an early return. • Loan – the possibility for early repayment of the Council's one remaining Market Loan of £5 million is continually assessed with our Treasury Consultants, Butlers. At the current time the advice is to leave the loan in its present form because of the large premium for premature repayment. The extent to which authorities may borrow in advance of need can be an area of uncertainty, balancing the opportunity to borrow early when conditions are judged to be advantageous with the increased risk inherent in such an approach. Borrowing money purely to on lend is illegal but to borrow in advance to fund, for example, next year's capital programme is not just legal but can readily be justified as good treasury management if there are what are considered attractive funding rates on offer. As set out in the 08/08 outturn report, the Council will continue to take a cautious approach in relation to borrowing.
7	Use the fullest range of information before deciding where to deposit funds.	The Council has for many years engaged specialist treasury consultants to assist with this task through the provision of daily market intelligence. The treasury section is also in daily contact with the financial markets through conversations with brokers and other market participants, information on money market rates from a variety of institutions and the financial press. All these sources help to inform any decisions made.

Arrangements at Copeland Borough Council

	Audit Commission Recommendations for Councils	Action by Copeland Borough Council
8	Be clear about the role of external advisers and recognise that Local Authorities remain accountable for decisions made.	As noted above, CBC makes use of external advice provided by specialist treasury advisers, Butlers. Butlers provide advice and information with regards to the Treasury Management function and other capital financing issues, however it is clearly understood by the Council that the ultimate responsibility and accountability for Treasury Management decisions made remains with the Council.
9	Look for economies of scale by sharing resources between Authorities or with pension funds, while maintaining separation of those funds.	The CBC Shared Services Strategy was approved by Full Council at its meeting of 23rd June '09. The assumption of the strategy is that, whilst some are more suitable than others, any function of a local authority is capable of being shared. The recommendation is perhaps more immediately pertinent to those cases where close links along similar lines are already in place, e.g. County Councils and Superannuation Funds.