REPORT FOR:	Governance, Audit and Risk Management Committee
Date:	**19 December 2013**
Subject:	**Treasury Management Self Assessment Training Action Plan**
Responsible Officer:	**Simon George, Director of Finance and Assurance**
Portfolio Holder:	**Tony Ferrari (Portfolio Holder for Finance)**
Exempt:	**No except for Appendix 5 which is exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)**
Enclosures:	**Appendix 1 Legislation and Regulation Impacting on Treasury Management Appendix 2 Treasury Management Practices – Risk Management Appendix 3 Treasury Management Group Appendix 4 Suggested Training Topics Appendix 5 Internal Audit Report [exempt (Part 2 only)]**

Section 1 – Summary and Recommendations

This report reminds the Committee of the Action Plan they agreed at their training session in the summer of 2013 and at their meeting on 24 September 2013 and advises them of actions being taken.

Recommendation

Note and comment on the actions being taken as detailed in paragraph 1

Reason

To improve the effectiveness of scrutiny of treasury management activity.

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Section 2 – Report

1. The "Action Points" agreed at the Committee's last meeting on 24 September along with "Actions Taken" are detailed in the table below.

Action Plan	Actions Taken
1. A summary of legislation and regulation impacting on treasury management to be attached to the three annual reports.	Summary attached as Appendix 1 for the Committee's comments in advance of it being attached to subsequent annual reports.
2. Risk register to be drafted for the Committee to consider and decide on whether they are significant enough to warrant monitoring by the Committee	Attached as Appendix 2 is the current Treasury Management Practice 1 – Treasury Risk Management. This discusses all the identified risks and procedures in place to minimise them. The Committee would be able to carry out its scrutiny duties by referring to this practice note when reviewing the various reports presented to them. The overall Treasury Management risks are assessed on an annual basis as part of the budget setting process. These robust processes in place are sufficient for a separate risk register to be unnecessary.
3. An overview of the strategy for the year to be included in the mid year and annual out-turn reports	This has been included in all recent reports including the current mid-year report. It will be included in all subsequent reports.
4. Circulate the Treasury Management Group reports to the Committee Members of GARMC	Reports for October and November attached as Appendix 3. For subsequent months, reports and action points agreed will be sent direct to Members.
5. Regular training sessions (at least annually) to be conducted. 6. Members to meet with Capita Asset Services (previously Sector) annually possibly through a training event at one of the Committee's meetings.	Training suggestions attached as Appendix 4 on which Members are invited to comment. The annual meeting with Capita could incorporate training provided by them. The first session could be arranged in the spring / summer of 2014.
7. Internal Audit reports to be circulated as information items to Members.	The most recent report is attached as Appendix 5 with the current position on agreed actions attached to the back of the report. For Treasury Management this key control review is carried out every three years with a formalised self assessment completed in each of the two intervening years. The internal Audit convention is that, as a "Green Assurance" report, this report would not automatically be submitted to the Committee but as the Committee has asked to see all relevant reports it would be in the future.
8. Members to provide an annual report to Council on scrutiny activities	The first draft report will be presented to the Committee in the summer of 2014 for consideration and forwarding to a subsequent meeting of the Council.

Financial Implications

2. There are no direct financial implications from the issues being discussed.

Performance Issues

3. This report deals specifically with the effectiveness of the scrutiny of treasury activity.

Environmental Impact

4. There is no environmental impact.

Risk Management Implications

5. Treasury management is subject to a wide range of risk management procedures as detailed in the attached Appendix 2

6. Risk included on Directorate risk register? Yes

7. Separate risk register in place? See Appendix 2

Equalities implications

8. There is no direct equalities impact.

Corporate Priorities

9. This report deals with Treasury Management activity which underpins the delivery of the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 5 December 2013	√	Chief Financial Officer
Name: Linda Cohen Date: 6 December 2013	√	On Behalf of Monitoring Officer

Section 4: Contact details and background papers

Contact: Ian Talbot (Treasury & Pension Fund Manager) tel: 020-8424-1450) email ian.talbot@harrow.gov.uk

Background Papers:

Call-In Waived by the Chairman of Overview and Scrutiny Committee *(for completion by Democratic Services staff only)*	YES/ NO / NOT APPLICABLE* * *Delete as appropriate*

APPENDIX 1

LEGISLATION AND REGULATION IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link below

Local Government Act 2003

Below is a summary of the provisions in the Act dealing with treasury management.

In addition the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Department of Communities and Local Government Guidance and CIPFA codes of practice.

Power to borrow

The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing

The main borrowing control is the duty not to breach the prudential and national limits as described below.
The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.
All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.
It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit

The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.

It is for the Council (at a meeting of the full Council) to set its own ‘prudential’ limit in accordance with these rules, subject only to the scrutiny of its external auditor. The Council is then free to borrow up to that limit without Government consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevents the long-term financing of revenue expenditure by borrowing. However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and forseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits

The Government has retained reserve power to impose ‘longstop’ limits for national economic reasons on all local authorities’ borrowing and these would override authorities’ self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements

Credit arrangements (eg property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit.

Power to invest

The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

2. Department for Communities and Local Government Investment Guidance (March 2010)

The Local Government Act 2003 requires a local authority "…..to have regard (a) to such guidance as the Secretary of State may issue………….." and the current guidance became operative on 1 April 2010.

The Guidance recommends that for each financial year the Council should prepare at least one investment Strategy to be approved before the start of the year. The Strategy must cover:

- **Investment security –**
  Investments should be managed prudently with security and liquidity being considered ahead of yield
  Potential counterparties should be recognised as "specified" and "non-specified" with investment limits being defined to reflect the status of each counterparty

- **Investment risk**
  Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.
  The use of credit ratings and other risk assessment processes should be explained
  The use of external advisers should be monitored
  The training requirements for treasury management staff should be reviewed and addressed
  Specific policies should be stated as regards borrowing money in advance of need

- **Investment Liquidity**
  The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

3. Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA 2011)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011)

Compliance with the objectives of the Code by the Council should ensure that:

- Capital expenditure plans are affordable in terms of their implications on Council Tax and housing rents
- External borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with good professional practice

As part of the two codes of practice above the Council is required to:

- agree a series of prudential indicators against which performance is measured
- produce Treasury Management Practice Notes for officers which set out how treasury management policies and objectives are to be achieved and activities controlled.

APPENDIX 2

London Borough of Harrow

Treasury Management Practices

1 – Risk Management

The management of the main treasury management risks is outlined below. The management of treasury risks is overseen by the Treasury Management Group ("TMG"), chaired by the Director of Finance and Assurance. Any actual or potential breaches of risk controls will be immediately reported to the TMG.

Liquidity Risk Management

The Council will ensure that it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to achieve its business and service objectives. Reports and systems are in place to monitor cash flow. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. Short term borrowing to cover timing mismatches between receipts and expenditure are permitted.

The Treasury Management section will seek to minimise the balance held in the Council's main bank accounts at the close of each working day. The balances on all Council accounts are cleared daily to the General Account at RBS, from which treasury activity is transacted. There is an agreed group overdraft limit of £50,000 with the RBS, for which no charge is made. There are no other overdraft, standby facilities or short-term facilities in place. Same day / next day liquidity investments are maintained to a sufficient level to cover any expected liquidity needs. Short term borrowing from other local authorities is available same day to meet unexpected liquidity needs.

Interest Rate and Inflation Risk Management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its revenue budget, as updated from time to time.

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the organisation as an integral part of its strategy for managing its overall exposure to inflation.

The Council will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates or inflation. The above are subject at all times to the consideration and, if required, the approval of any policy or budget implications.

The current portfolio seeks to achieve both certainly and optimum returns through timing long term fixed rate borrowing (including LOBO's) to seek out favourable interest rate environments. Similarly, the choice between short and medium maturity deposits and variable rate structured products (caps and collars) will take into account expectations of interest rate movements. The annual strategy will include limits on fixed and variable rate borrowing. No use of derivatives to hedge interest rates will be undertaken without Council approval.

Credit and Counterparty Risk Management

The Council regards the prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty list and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 'Approved instruments, methods and techniques'. It also recognises the need to have and will therefore maintain a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with. Credit ratings will be used as supplied from Fitch with additional monitoring based on Moody's and Standard & Poor's. The Council's appointed treasury management consultants will provide regular updates of changes to all ratings relevant to the Council. The TMG will recommend to the Director of Finance and Assurance suitable criteria for assessing and monitoring the credit risk of investment counterparties and will construct a lending list comprising criteria as set out below.

<u>Specified Investments</u>

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum rating criteria where applicable. The instruments and credit criteria to be used are set out in the table below. Ratings are based on Fitch criteria.

Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support AA- Viability AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	A Long Term F1 Short-term 1 Support A Viability UK or AAA Sovereign	In-house	50%	3 months
UK part nationalised banks [RBS & Lloyds/HBOS]	F1 Short-term 1 Support	In-house	50% for each of the two Groups	36 months
Callable Deposits	F1 Short term A Long Term 1 Support	In-house	20%	3 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10m per fund)	Minimum monthly redemption

All credit ratings will be monitored in house with the help of Capita Asset Services who alert the Council to changes in Fitch ratings through its creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as an investment will be withdrawn immediately.

The Council will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- Recommendations from Capita Asset Services,
- the quality financial press,
- market data,
- information on Government support for banks, and
- the credit ratings of that Government support.

The maximum maturity for any counterparty will not exceed that recommended by Capita Asset Services, either publicly or privately. That will mean that a counterparty that meets the minimum credit quality above will not be used if Capita Asset Services advise against any investment.

Diversification is maintained to avoid concentrations of lending and borrowing as follows:

- maximum amount to be placed with any one institution or group- £20 million, except
- group limits for each of the UK part nationalised banks – maximum of 50% of investment resources, and
- Maximum exposure to Money Market funds - £40 million.

The TMG group will approve at least every six months a full individual listings of counterparties and counterparty Limits.

Refinancing Risk Management

The Council will ensure that its borrowing (including leasing) arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can be reasonably achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise the achievement of the above.

In utilising LOBO borrowing, the Council recognises that there is a trade off between lower interest coupons and the risk of early redemptions. This risk is managed through a spread of lenders and limiting overall LOBO debt.

The Council will establish through its prudential and treasury indicators the amount of debt maturing in any year/period. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk,
- to reduce the average interest rate, and
- to amend the maturity profile and /or the balance of volatility of the debt portfolio.

A three year plan for capital expenditure will be prepared and used to prepare revenue budget for all forms of financing charges.

Legal and Regulatory Risk Management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The relevant legislation and regulations are The Local Government Act 2003 and DCLG "Guidance on Local Government Investments" (March 2010).

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud & Error

The Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:

- seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks,
- fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are,
- staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision, and
- records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Details of Systems and Procedures

RBS Bankline

This system enables bank balances and transactions to be monitored. This is used to prepare cashflows. These individuals have enquiry access:

Yasmin Merchant – Financial Adviser, Pensions and Investments
Rakesh Kotecha – Financial Accountant
Shelley Jones – Finance Officer
Elaine Woods – Finance Officer
James Thomson – Finance Officer
Shivani Patel – AAT Trainee

In addition, the first four of these individuals can set up payment transactions in Bankline, but are not able to release transactions. The release of transactions requires one of the persons set out below to approve (sign) a payment request:

Simon George – Director of Finance and Assurance
Hasina Shah – Head of Technical Finance and Accountancy
Steve Tingle – Senior Financial Adviser
Kanta Halai – Senior Financial Adviser
Donna Edwards – Finance Business Partner

A further person (two if the amount is greater than £5m) uses their personal password and the RBS random number generator within Bankline to release the funds. The persons authorised to carry out this function (only if they have not signed the documentation) are as follows:

Hasina Shah – Head of Technical Finance and Accountancy
Steve Tingle – Senior Financial Adviser
Kanta Halai – Senior Financial Adviser
Donna Edwards – Finance Business Partner
Sonal Shah – Service Accountant
Ann Begley – Service Accountant
Milan Joshi – Service Accountant

The bank signatories above are not able to set up payments within Bankline. Access to Bankline is controlled by user name and two level passwords. There is a more restricted list of signatories for non Bankline instructions
For regular payments, bank details are stored within Bankline. New bank accounts can be entered by a member of the Treasury team, but not by those able to release payments. Bank details are visible to those releasing payments.

Cheques are maintained by the IT dept and are not accessible to the Treasury team.

LogoTech

This system records the investment and loan balances. It is used to track interest income and payments, loan and investment repayments and provide cashflow information. LogoTech is updated with counterparty limits, which are shown on deal tickets. No transactions are initiated within LogoTech.

Access to LogoTech is restricted to:

Yasmin Merchant – Financial Adviser, Pensions and Investments
Rakesh Kotecha – Financial Accountant
Shelley Jones – Finance Officer
Elaine Woods – Finance Officer
James Thomson – Finance Officer
Sonali Chotai – Finance Officer

Access is controlled by passwords.

SAP and Spreadsheets

SAP is the Council's accounting system to which treasury transactions are posted. Balances on SAP are reconciled monthly to LogoTech. Details of transactions and investment balances are also maintained on spreadsheets and these are also reconciled monthly to SAP / LogoTech. Spreadsheets are also used to monitor interest earned on call accounts and money market funds, which are again agreed to LogoTech.

Access to the Harrow network and SAP is controlled by password.

Bank accounts & signatories

The Council banks with National Westminster Bank, Harrow Branch. The individuals authorised to instruct the bank (non Bankline) are:

Simon George – Director of Finance and Assurance
Hasina Shah – Head of Technical Finance and Accountancy
Steve Tingle – Senior Financial Adviser
Fernando Silverio - Divisional Director

Changes to the bank mandate including signatories are authorised by the Director of Finance and Assurance.

Investment and borrowing transactions

- a detailed register of all loans and investments is maintained in the LogoTech system,
- a written loan agreement is signed in advance of any borrowing.
- written confirmations are promptly checked against dealing tickets for each transaction,
- monthly statements for money market, call and deposit accounts are promptly reconciled to LogoTech and internal spreadsheets.
- any discrepancies are immediately reported to the Treasury and Pension Fund Manager for resolution, and
- all transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Any discrepancies are immediately reported to the Treasury and Pension Fund Manager for resolution.

Regularity and security

- lending is only made to institutions on the Approved List of Counterparties,
- LogoTech prompts when money borrowed or lent is due to be repaid,
- all loans raised and repayments made go directly to and from the bank account of approved counterparties,
- counterparty limits are set for every institution (see above) that the Council invests with,
- brokers have a list of named officials authorised to agree deals,
- the Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions,
- no member of the Treasury Management team is an authorised signatory,
- payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services, and
- LogoTech system can only be accessed by a password.

Checks

- the bank reconciliation is carried out daily with Corporate Finance from the bank statement to the financial ledger,
- the LogoTech balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end, and
- a debt charge/investment income listing is produced every six months when a review is undertaken against the budget for interest earnings and debt costs.

Calculations

- the calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by LogoTech,
- LogoTech automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to lenders,
- average weighted capital loans fund interest rates and debt management expenses are calculated semi annually using information from the financial ledger and LogoTech, and
- these interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the Loans Fund and the Housing Revenue Account recharge.

Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Exchange rate risk

All investments and borrowing will be in sterling. Currency for any non sterling denominated transactions will be purchased spot at or close to settlement date.

Emergency and disaster Contingency Planning

See Council's Business Continuity Plan.

Last Update: December 2013

APPENDIX 3

HARROW COUNCIL
CORPORATE FINANCE

TREASURY MANAGEMENT GROUP

***AGENDA**: Thursday 17th October 2013 at 11.00 a.m in SG's office*

1) Treasury Management
   Investment position
   Counterparties
   Performance
   Borrowing position
   Bank Mandate
   Policy, strategy, practices and reporting

2) Any other business

3) Next meeting: Thursday 14th November 2013 at 12.00 a.m. in SG's office

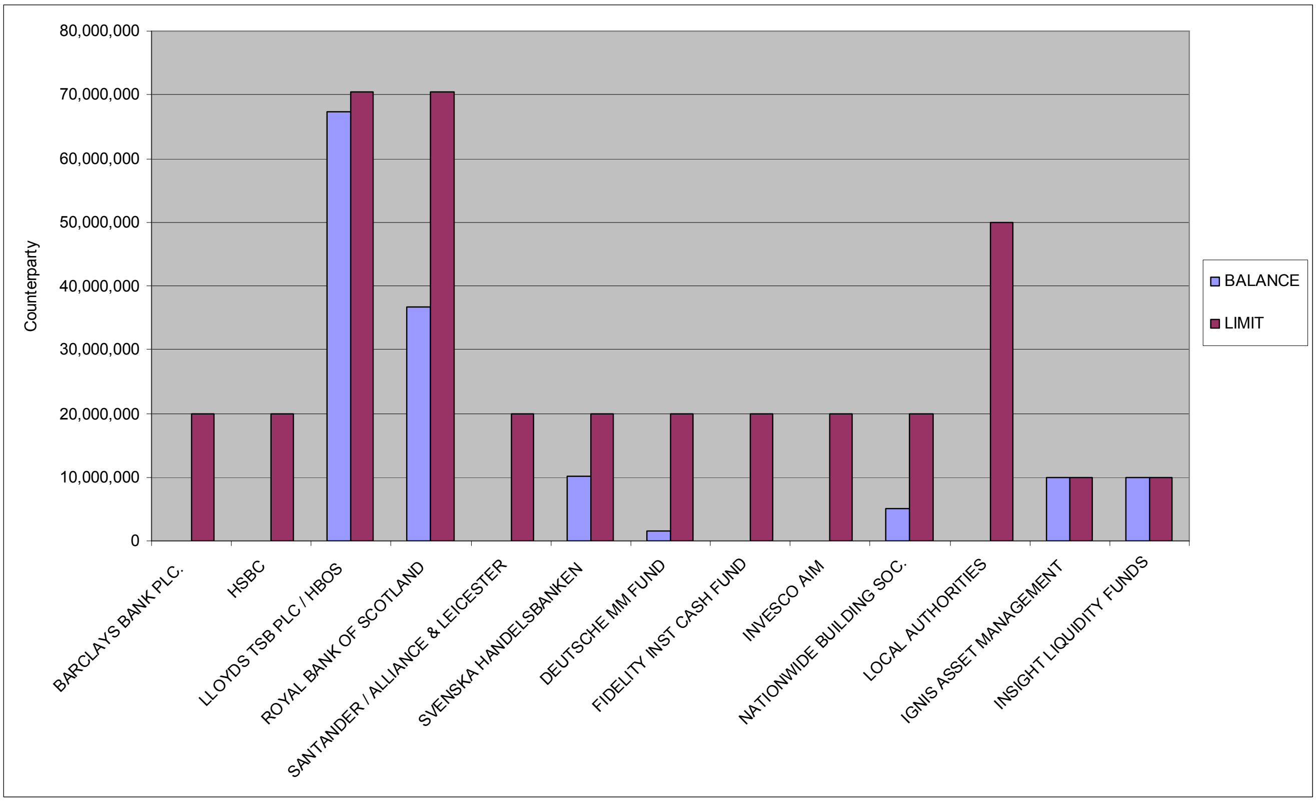
Circulation:

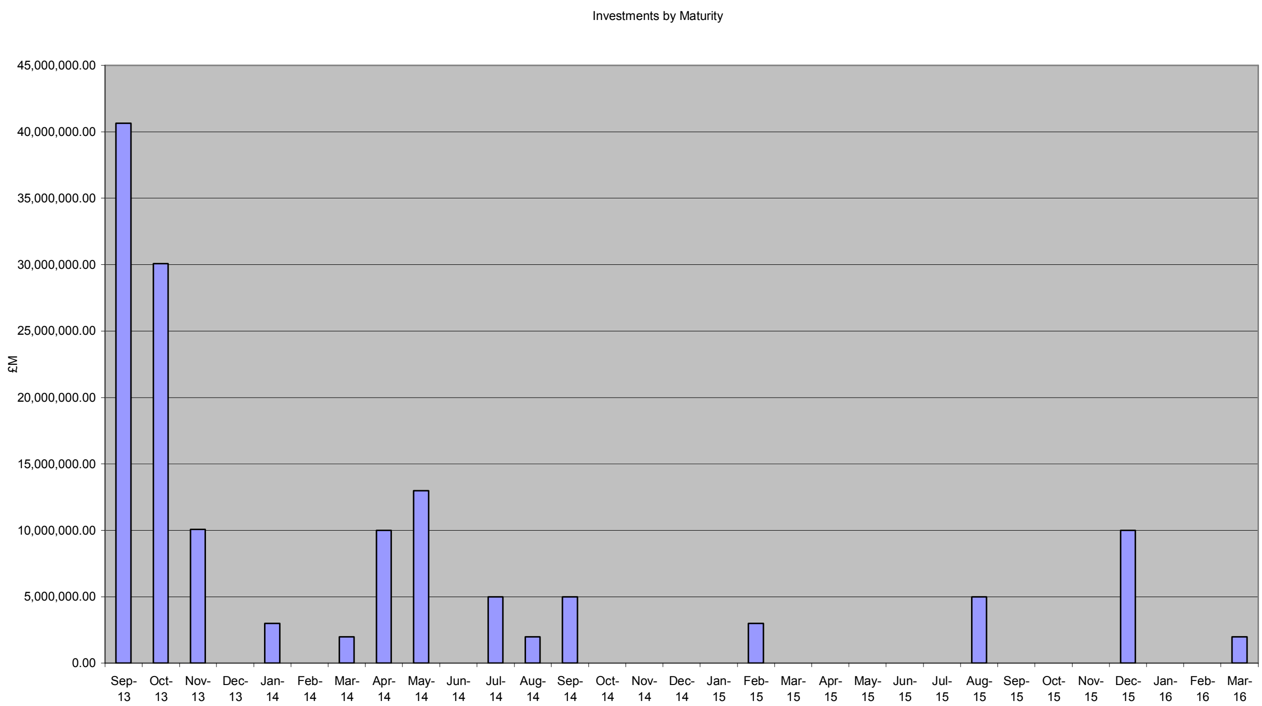
Simon George, Hasina Shah, Ian Talbot,

TREASURY MANAGEMENT

Investment Balances

As at 30th September 2013 the Council held investment cash balances of £140.8m. Counterparties and the maturity profiles are shown in the tables below.





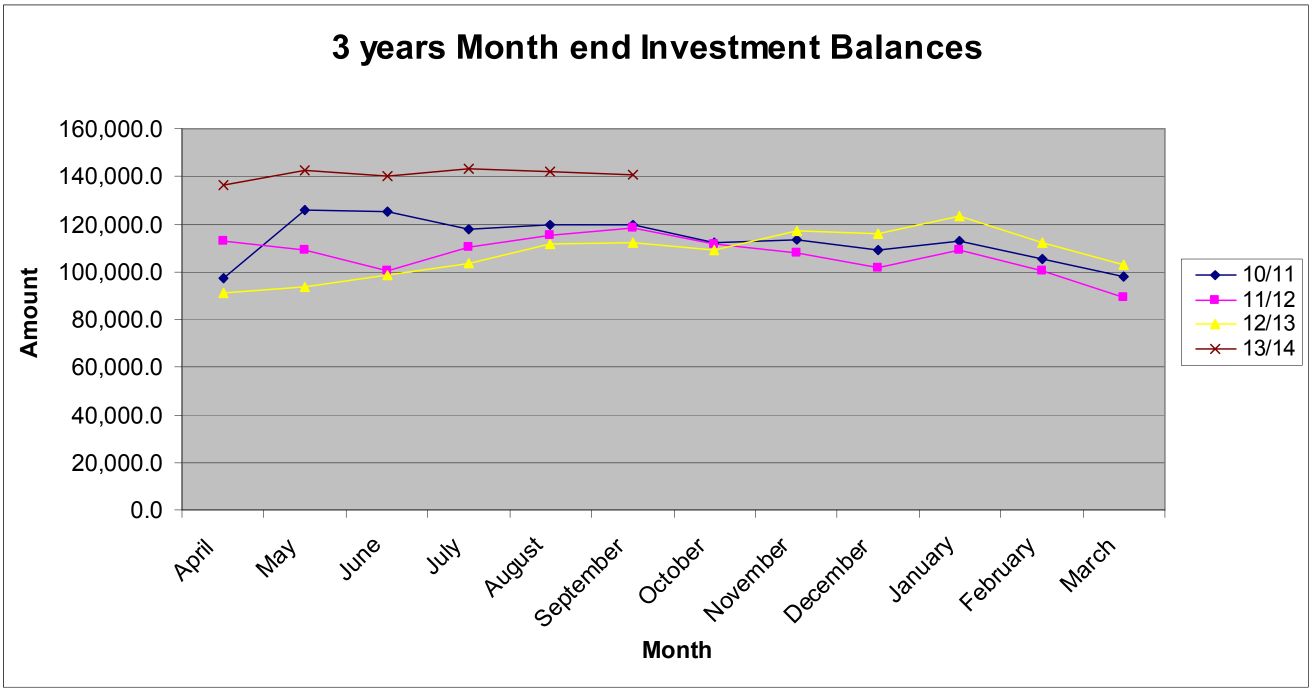
The only counterparties actively in use are Lloyds/HBOS £67.4m, RBS £36.7m, Ignis Sterling Short Duration Fund (Enhanced Cash Plus Funds) £10m, Insight Liquidity Funds (Enhanced MMF) £10m, Nationwide £5m, Svenska Handelsbanken £10.1m, and residual balances of £1.6m in money market funds.

Maturities of up to three years are permitted with RBS and Lloyds, with three months for other counterparties and six months for Svenska Handelsbanken.,Although the preference is to diversify away from RBS and Lloyds, the longer permitted maturity and interest rates offered by Lloyds mean that they will remain the most significant counterparties in 2013-14.

A £5m investment that matured was reinvested in September 2013 with Svenska Handelsbanken on a new 35 Day notice deposit (0.60%). All other transactions in September were contained within the RBS SIBA account.

Available rates for lending of up to three months are broadly 0.4% money market, 0.45% Nationwide, 0.60% Svenska and 0.50% RBS call. Call funds are almost entirely invested in RBS. The best rate offered for one year is the Lloyds rate of just under 1% and there is virtually no premium for 2-3 year deposits.

Currently £20m matures in more than 12 months (limit £25m)



Advance Government funding has resulted in cash balances remaining high at £140.8m as at 30 September. Balances are likely to remain above £100m for the rest of the year.

Credit Rating & Maturity Guidelines

The table below summarises the current credit ratings and maturity guidelines for those banks used by Harrow. The Ratings shown are the lowest of Fitch, S&P and Moody's.

The Moody's ratings for RBS are one level below our threshold. Should Fitch mirror this change, then RBS would no longer comply with the counterparty policy. Although Santander meets the minimum required credit quality, it is not being used following previous discussions with GARM. Sector have introduced a 3 months maximum maturity for this bank (previously no deposits recommended)

Sector has lifted their 3 month maximum maturity limit on the non nationalised banks allowing longer dated deposits with Svenska and Nationwide. However - Sector have revised Nationwide's maximum maturity down to 3 months (previously 6mths) and Svenska down to 6 months (previously 12mths). Harrow is compliant with this new advice.

	Lowest Agency Rating			**Sector**
Bank	**Long term**	**short term**	**Support**	**max maturity**
Lloyds	A	F1	1	36 months
BoS	A	F1	1	36 months
RBS	A-	F2	1	36 months
Barclays	A	F1	1	3 months
HSBC	AA-	F1+	1	12 months
Santander	A	F1	1	3 months
Nationwide	A	F1	1	3 months
Svenska	AA-	F1+	1	6 months

[NB Sector's public recommendations for the nationalised banks is 12 months]

Investment Performance

The 2013-14 revenue forecast is a net expenditure of £6,773,000 on the treasury budget (excluding MRP) as detailed below:

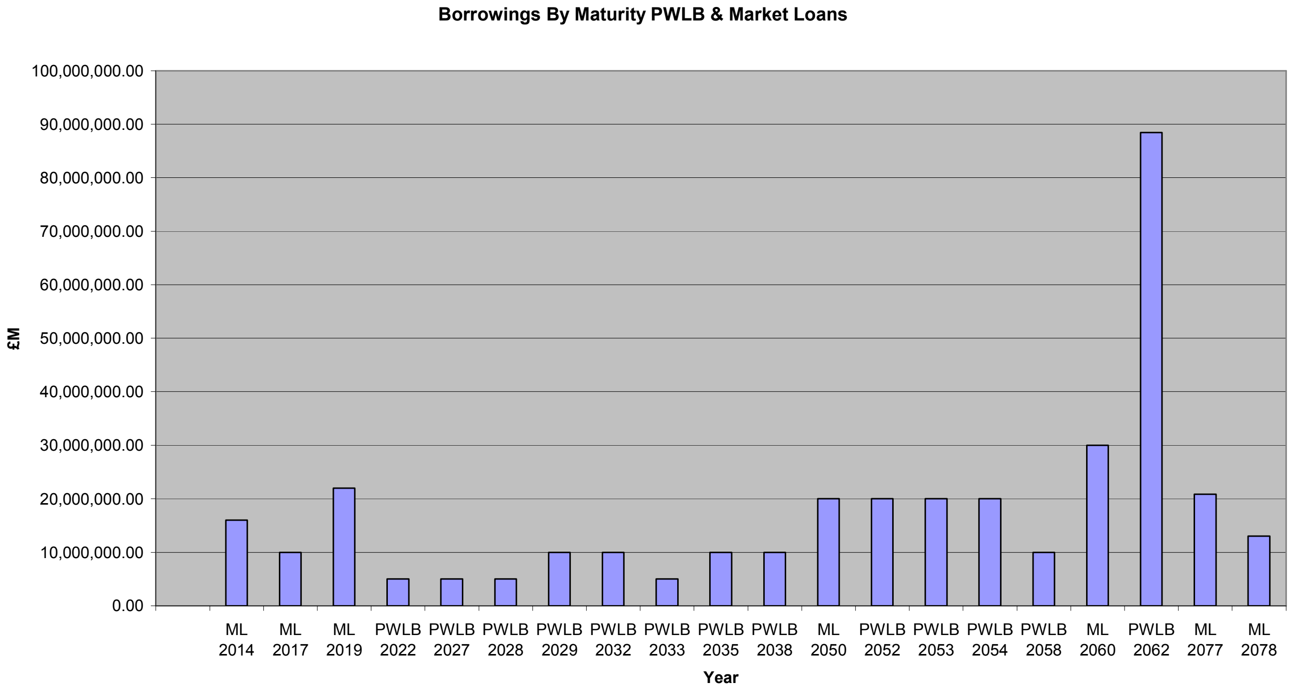
	2013-14 Budget £'000	2012-13 Actual £'000
Cost of Borrowing	8,224	8,228
Investment Income	-1,572	-1,820
Expenses	121	118
Total	6,773	6,526

As at September 2013, the expectation is of an outcome in line with budget.

The yield on the investment portfolio as at 30th September was 1.52%. This is a reduction from 2.14% as at March 2013 reflecting maturities and the prevailing interest rates available.

Borrowing Position

The outstanding debt remains unchanged since March 2012 at £350.3m. This balance is made up of £218.5m of PWLB Loans and £131.8m of Market Loans. The average maturity is 38 years and average cost is 4.30%. Adjusting LOBO loans maturity in line with the next interest reset date reduced the average maturity to 26 years. The first non LOBO maturities (£16m @ 5.5%) are in 5 months.



Bank Contract & Mandates

The banking contract with RBS has been extended until 31st March 2014. As a result of the recent tender process it has been decided to award a new contract to RBS. The contractual documentation is now being agreed with the bank.

The new contract moves from a fixed price to one based on transaction charges. Although there will be no significant changes to service delivery, opportunities to reduce costs through more efficient integration with RBS will be explored. A meeting has been arranged with the RBS Director on 25 October.

Policy, strategy, practices and reporting

The annual out-turn report was presented to GARMC on 22 July. No issues arose. Prior to the meeting a self assessment exercise covering the effectiveness of scrutiny was discussed. At their meeting on 24 September GARMC agreed to ongoing actions to improve the effectiveness of their scrutiny of the treasury management function.

Any Other Business

Edward Harvist Trust

Council officers met the auditors, Alliotts, on 26 September and Alliotts confirmed there would be no significant issues to raise with the trustees. They are to suggest some drafting changes for the Council to consider. Officers are to meet BlackRock, the fund managers on 30 October and the Trust is to meet, to receive the audited accounts, on 26 November.

WLWA

Following the commitment to loan £15m to WLWA to part finance the new EfW plant, we have been asked to set out a plan to collect, invest and forward the stage payments. A meeting was held on 18 September with the three other funding boroughs to discuss accounting and banking arrangements and agreement to draft arrangements was subsequently reached.

HARROW COUNCIL
CORPORATE FINANCE

TREASURY MANAGEMENT GROUP

***AGENDA**: Thursday 14th November 2013 at 14.30 in SG's office*

4) Treasury Management
   Investment position
   Counterparties
   Performance
   Borrowing position
   Bank Mandate
   Policy, strategy, practices and reporting

5) Any other business

6) Next meeting: Thursday 12th December 2013 at 11.00 in SG's office

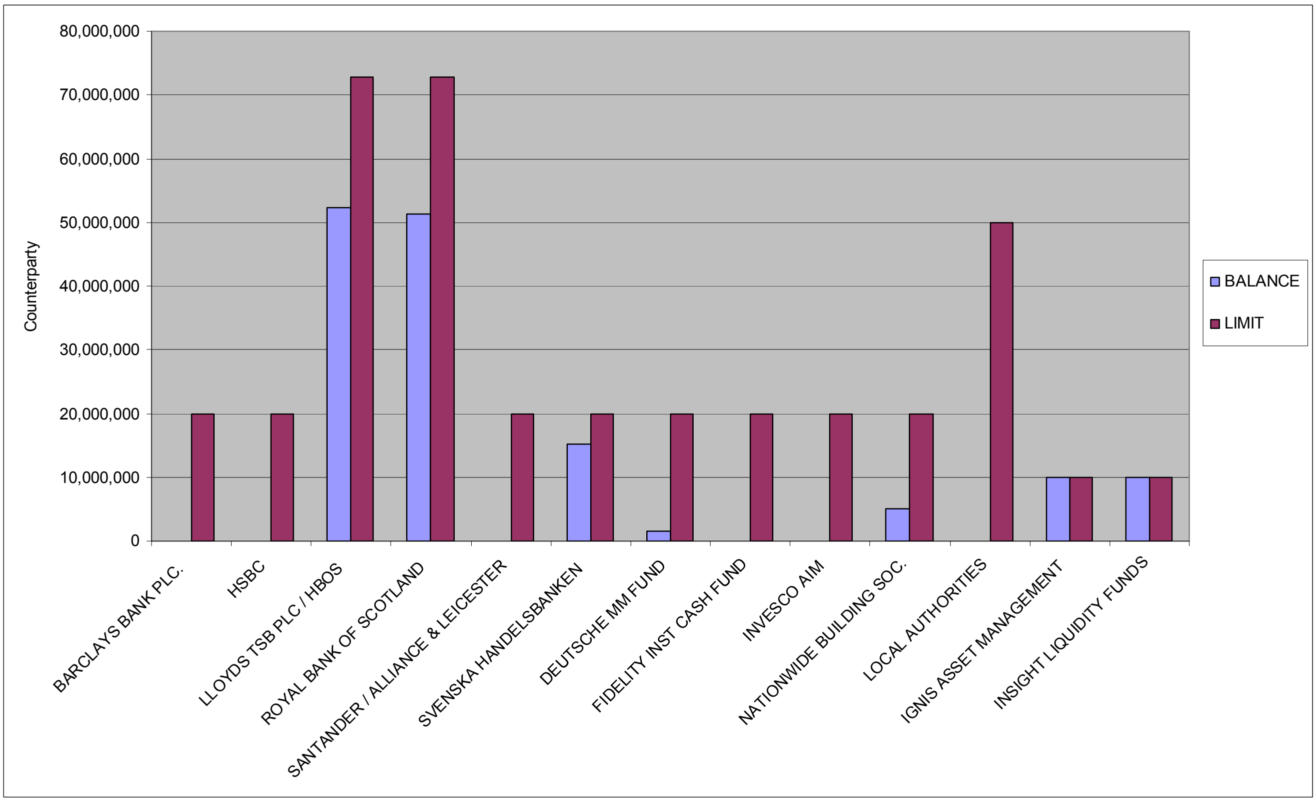
Circulation:

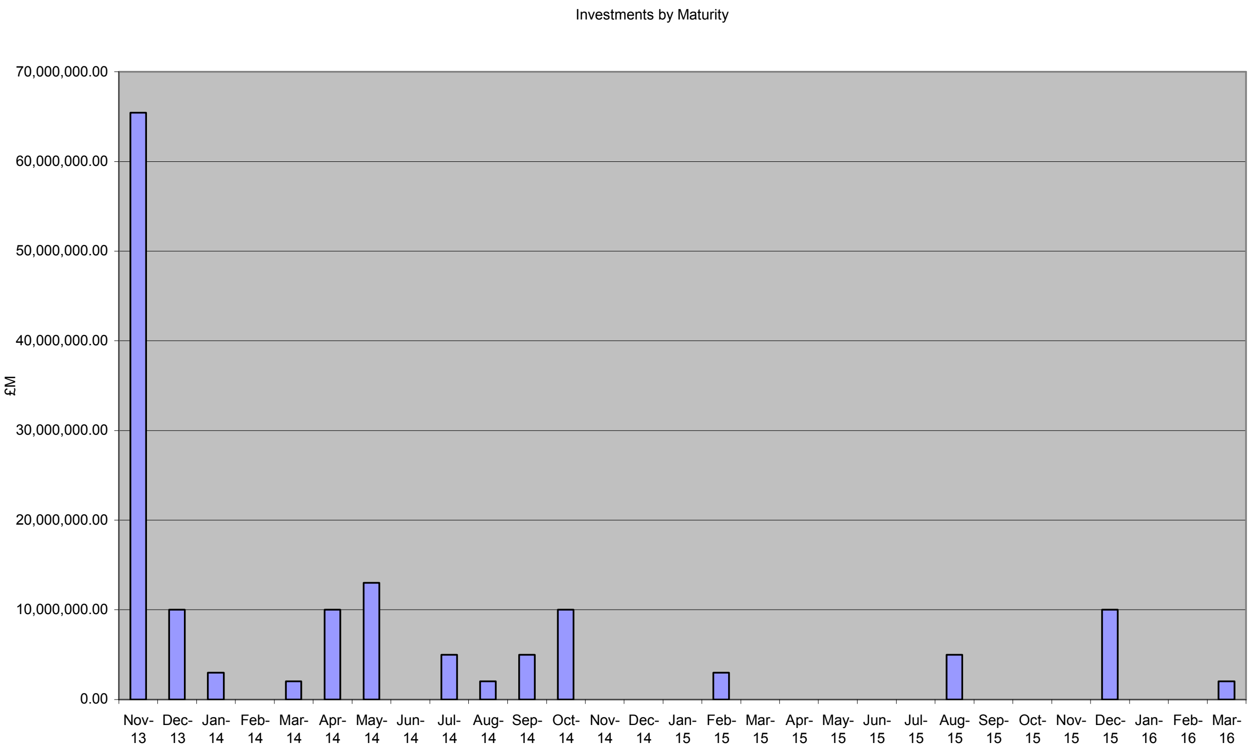
Simon George, Hasina Shah, Ian Talbot,

TREASURY MANAGEMENT

Investment Balances

As at 31st October 2013 the Council held investment cash balances of £145.5m. Counterparties and the maturity profiles are shown in the tables below.





The only counterparties actively in use are Lloyds/HBOS £52.4m, RBS £51.3m, Ignis Sterling Short Duration Fund (Enhanced Cash Plus Funds) £10m, Insight Liquidity Funds (Enhanced MMF) £10m, Nationwide £5m, Svenska Handelsbanken £15.2m, and residual balances of £1.6m in money market funds.

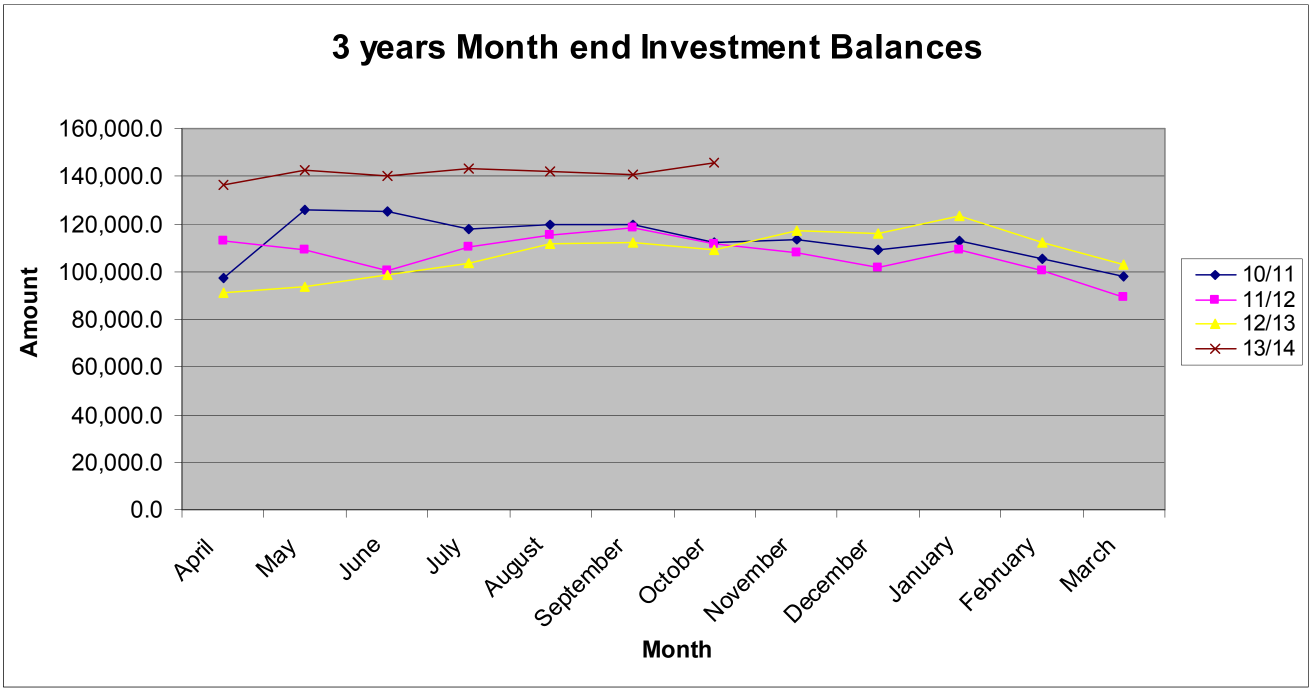
Maturities of up to three years are permitted with RBS and Lloyds, with three months for other counterparties and six months for Svenska Handelsbanken., Although the preference is to diversify away from RBS and Lloyds, for example other local authorities, the longer permitted maturity and interest rates offered by Lloyds mean that they will remain the most significant counterparties in 2013-14.

A £25m investment that matured was partially reinvested with Lloyds for £10m on a new fixed 1 year deal @ 0.98%, £5m was placed on a new 35 day notice deposit with Svenska whilst the remaining £10m was contained within RBS SIBA account.

An existing £5m investment was reinvested in October 2013 with Svenska Handelsbanken on a new 35 Day notice deposit (0.60%). All other transactions in October were contained within the RBS SIBA account.

Available rates for lending of up to three months are broadly 0.4% money market, 0.45% Nationwide 0.60% Svenska and 0.50% RBS call. Call funds are almost entirely invested in RBS. The best rate offered for one year is the Lloyds rate of just under 1% and there is virtually no premium for 2-3 year deposits.

Currently £20m matures in more than 12 months (limit £25m)



Advance Government funding has resulted in cash balances remaining high at £145.5m as at 31st October. Balances are likely to remain above £100m for the rest of the year.

Credit Rating & Maturity Guidelines

The table below summarises the current credit ratings and maturity guidelines for those banks used by Harrow. The Ratings shown are the lowest of Fitch, S&P and Moody's.

The Moody's and S&P ratings for RBS are now both one level below our threshold. Should Fitch mirror this position, then RBS would no longer comply with the counterparty policy. Although Santander meets the minimum required credit quality, it is not being used following previous discussions with GARM. Sector have introduced a 3 months maximum maturity for this bank (previously no deposits recommended)

Sector has lifted their 3 month maximum maturity limit on the non nationalised banks allowing longer dated deposits with Svenska and Nationwide. However - Sector have revised Nationwide's maximum maturity down to 3 months (previously 6mths) and Svenska down to 6 months (previously 12mths). Harrow is compliant with this new advice.

	Lowest Agency Rating			**Sector**
Bank	**Long term**	**short term**	**Support**	**max maturity**
Lloyds	A	F1	1	36 months
BoS	A	F1	1	36 months
RBS	A-	F2	1	36 months
Barclays	A	F1	1	3 months
HSBC	AA-	F1+	1	12 months
Santander	A	F1	1	3 months
Nationwide	A	F1	1	3 months
Svenska	AA-	F1+	1	6 months

[NB Sector's public recommendations for the nationalised banks is 12 months]

Investment Performance

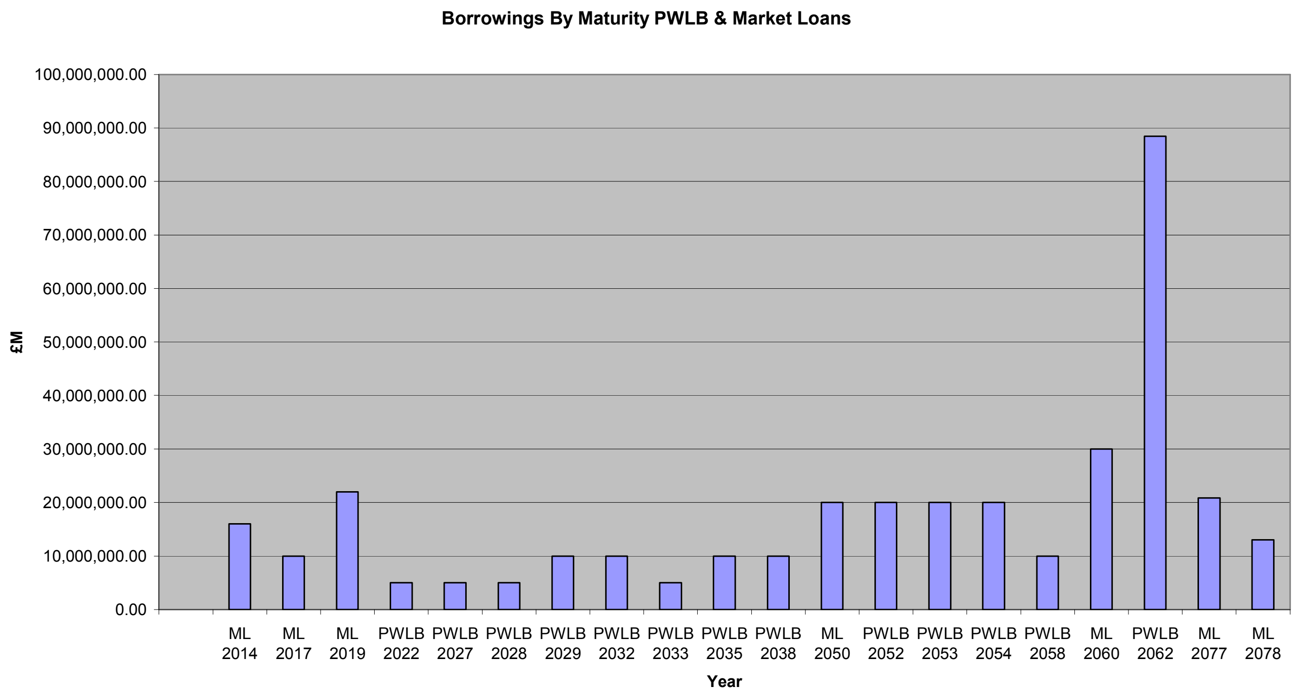
The 2013-14 revenue forecast is a net expenditure of £6,872,000 on the treasury budget (excluding MRP) as detailed below:

	2013-14 Budget £'000	2013-14 Est Outturn £'000	2012-13 Actual £'000
Cost of Borrowing	8,481	8,476	8,447
Investment Income	-1,572	-1,625	-1,820
Expenses	21	21	118
Total	6,930	6,872	6,745

The yield on the investment portfolio as at 30th September was 1.47%. This is a reduction from 2.14% as at March 2013 reflecting maturities and the prevailing interest rates available.

Borrowing Position

The outstanding debt remains unchanged since March 2012 at £350.3m. This balance is made up of £218.5m of PWLB Loans and £131.8m of Market Loans. The average maturity is 38 years and average cost is 4.30%. Adjusting LOBO loans maturity in line with the next interest reset date reduced the average maturity to 26 years. The first non LOBO maturities (£16m @ 5.5%) are in 4 months.



Benchmarking

The Council's cash management advisers, Capita recently reported on their benchmarking analysis upto 30th September 2013. The Council's yield of 1.47% was the highest of its benchmarking group and probably in the top 10% nationwide. This was due partly to an above average appetite for risk but the Capita analysis suggests that the Council is being rewarded for this risk.

Bank Contract & Mandates

The banking contract with RBS has been extended until 31st March 2014. As a result of the recent tender process it has been decided to award a new contract to RBS. On 12th December Cabinet will be asked to agree this new contract. The contractual documentation is now being agreed with the bank.

The new contract moves from a fixed price to one based on transaction charges. Although there will be no significant changes to service delivery, opportunities to reduce costs through more efficient integration with RBS will be explored. A meeting was held with the RBS Director on 13th November.

Policy, strategy, practices and reporting

The annual out-turn report was presented to GARMC on 22 July. No issues arose. Prior to the meeting a self assessment exercise covering the effectiveness of scrutiny was discussed. At their meeting on 24 September GARMC agreed to ongoing actions to improve the effectiveness of their scrutiny of the treasury management function and these will be reported for the first time to the meeting on 19th December.

Any Other Business

Edward Harvist Trust

Officers met BlackRock, the fund managers on 30 October and the Trust is to meet, to receive the audited accounts, on 26 November.

WLWA

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APPENDIX 4

SUGGESTED TRAINING TOPICS

- Treasury management framework
- Economics and markets
- Cash management
- Risk management
- Debt management
- Options appraisal
- Investments
- Prudential indicators and the Treasury Management Strategy Statement