REPORT FOR:	GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE
Date of Meeting:	19 July 2016
Subject:	**Information Report -** Treasury Management Responsibilities and the Interpretation of Treasury Management Reports.
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary

This report sets out for the Committee the responsibilities held by various bodies in connection with the Council's Treasury Management functions and provides it with background information which it might find useful in its consideration of the 2015/16 Treasury Management Outturn Report and subsequent treasury management reports.

Section 2 – Report

INTRODUCTION

1. One of the Committee's powers and duties is:

   To review the Treasury Management Strategy and monitor progress on treasury management in accordance with CIPFA codes of practice

2. This duty is carried out through the consideration each year of three reports dealing with the setting of the Strategy at the beginning of the year, the monitoring of implementation halfway through the year and the consideration of the outturn at the end of the year.

3. At its meeting on 28 January the Committee considered the first of these reports for 2016-17 entitled:

   Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2016-17

4. The consideration by the Committee was minuted as follows:

   Members received a report which set out the Council's Treasury Management Strategy (TMS) Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2016/17.

   The Director of Finance outlined the content of the report and confirmed that the Borrowing Strategy was viewed as prudent. The Council only borrowed what it needed and treasury management/ cash flow was monitored on a daily basis and she advised that officers worked closely with the Council's treasury management advisers.

   Some Members challenged the level of borrowing and questioned at what point the amounts borrowed would be viewed as unreasonably high. Members expressed concern about the affordability of the borrowing. The Director of Finance undertook to provide additional commentary and a more detailed affordability table in the next report. The report content was governed by the CIPFA code and it was agreed that more explanation in relation to what the ratios meant for Harrow would be included in future reports.

   Members were reassured that senior management did have oversight of treasury management and borrowing levels. The Director of Finance and the Treasury and Pension Fund Manager reviewed information at least monthly and all Cabinet reports were submitted to the Corporate Board. In addition to this, Internal Audit undertook a review on an annual basis.

   Members considered whether the Committee should write to the Leader of the Council and Chief Executive as part of their 'obligation to raise flags' about the importance of senior management oversight of the treasury management strategy. The Corporate Director of Resources and Commercial re-iterated that the TMS was considered by the Corporate Board and that the Director of Finance, as the statutory Section 151 Officer, was the most qualified finance officer within the organisation.

   RESOLVED: *That*

   (1) the Treasury Management Strategy Statement and Prudential Indicators for 2016/17, Minimum Reserve Provision Policy Statement for 2016/17 and Annual Investment Strategy for 2016/17 be noted;

(2) the maximum total investment in the Investment Property Strategy be set at £20m;

(3) the limit of investments for over 364 days be increased to £60m;

(4) a diagram setting out the responsibilities for financial controls/governance processes be submitted to the next meeting;

(5) a learning session on the Treasury Management Strategy be arranged.

5. This report addresses the matters specifically raised by the Committee and provides further background on treasury management activity to assist the Committee in its consideration of treasury management reports one of which is included as item 8 on the Agenda.

CIPFA TREASURY MANAGEMENT CODES

6. There are two relevant Codes, the requirements of which are as follows:

<u>Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA 2011)</u>

- 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 or Cabinet 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.

<u>The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011)</u>

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

7. 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.

8. The Council complies with all the requirements of both the Codes as discussed below.

RESPONSIBILITIES FOR FINANCIAL CONTROLS / GOVERNANCE PROCESSES

9. As requested by the Committee a chart setting out the lines of responsibility for treasury management activity is as follows:

COUNCIL
Under the Constitution, the Council is responsible for “decisions relating to the control of the Council’s borrowing requirement.” It agrees the annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy

CABINET
Under the Constitution, the Cabinet “will exercise all of the local authority functions which are not the responsibility of any other part of the local authority, whether by law or under this Constitution.” It considers and recommends to Council the annual Treasury Management Strategy Statement and receives a mid-year report and annual outturn report on Treasury Management activities.

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE
Reviews the Treasury Management Strategy and monitors progress on treasury management in accordance with CIPFA codes of practice

DIRECTOR OF FINANCE (SECTION 151 OFFICER)

Under S151 of the Local Government Act 1972 the Council “shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” At Harrow, this responsibility is exercised by the Director of Finance.

The Director is responsibility for implementing the policies agreed by the Council and Cabinet.

Under the Local Government Finance Act 1988 and the Local Government Act 2003 the Director also has responsibilities in respect of budget arrangements and the adequacy of resources. In terms of Treasury Management this means that the financing costs of the Capital Programme are built into the Revenue Budget as are any assumptions on investment income.

The Director chairs the Treasury Management Group and agrees major treasury management decisions, specifically including any borrowing decisions, delegated to officers.

TREASURY MANAGEMENT GROUP

Comprises Director of Finance, Head of Strategic and Technical Finance (Deputy S151 Officer), Treasury and Pension Fund Manager, Senior Finance Officer and is responsible for:

- Monitoring treasury management activity against approved strategy, policy, practices and market conditions;
- Ensuring that capital expenditure plans are continually reviewed in line with budget assumptions throughout the year to forecast when borrowing will be required.
- Approving changes to treasury management practices and procedures;
- Reviewing the performance of the treasury management function using benchmarking data on borrowing and investment provided by the Treasury Management Adviser (Capita Asset Services);
- Monitoring the performance of the appointed Treasury Management Adviser and recommending any necessary actions
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;
- Monitoring the adequacy of internal audit reviews and the implementation of audit recommendations

TREASURY AND PENSION FUND MANAGER

Responsible for the execution and administration of treasury management decisions, acting in accordance with the Council’s Treasury Management Strategy Statement and CIPFA’s “Standard of Professional Practice on Treasury Management”

TREASURY MANAGEMENT TEAM

Headed by Senior Finance Officer with responsibility for day-to-day treasury and investment and borrowing activity in accordance with approved Strategy, policy, practices and procedures and with recommending changes to the Treasury Management Group

PRUDENTIAL INDICATORS

10. As indicated above, The Prudential Code for Capital Finance requires authorities to agree a series of prudential indicators against which performance is measured. These indicators are also intended to help the decision making process and must be approved by Council before the beginning of the financial year.

11. The current indicators for the year 2016-17 were agreed by Council on 25 February 2016.

12. This report is to be read alongside the previous report on the agenda entitled Treasury Management Outturn 2015/16. Further detail on the indicators is provided in the Appendix to this report which is also included as an appendix to the Outturn Report.

Capital Expenditure and Funding

13. The table below relevant to this indicator summarises the Council's expenditure covering the previous year (2014-15), the current year (2015-16) revised budget and the actual expenditure (2015-16). Details of individual schemes are included in the Council's budget report and subsequent monitoring reports.

	2014/15	2015/16	2015/16
	Actual	Revised Budget	Actual
	£'000	£'000	£'000
Expenditure			
Non - HRA	57,927	126,722	79,623
HRA	4,443	30,239	13,554
TOTAL	**62,370**	**156,961**	**93,177**
Funding:			
Grants	27,779	68,522	22,967
Capital Receipts	179	15,995	30,472
Revenue Financing	5,534	11,344	9,679
Section 106 / Section 20 contributions	553	2,521	1,458
TOTAL	**34,045**	**98,382**	**64,576**
Net financing need for the year	**28,325**	**58,579**	**28,601**

14. Whilst details of funding sources are not specifically required by the Codes they are important in the context of affordability, budgeting and value for money.

15. The table suggests that to finance the capital programme in 2014-15 and 2015-16 there was a shortfall of resources which could only be met by borrowing (£28.325m in 2014-15 and £28.601m in 2015-16). However, during the two years cash balances at the beginning of the year and cashflow during the year meant that this borrowing requirement could be met from internal resources.

Capital Financing Requirement

16. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow to finance historic and estimated future capital expenditure. It comprises the funding requirement for capital expenditure not met by other sources of funding plus additional leasing liabilities less monies set aside for the repayment of debt, largely through the Minimum Revenue Provision.

17. This is an indicator of prudence in that the Code states that in order to ensure that, over the medium term, net borrowing will only be for capital purposes this borrowing should not, except in the short term, exceed the total of the planned capital financing requirement. Compliance with this part of the Code is confirmed in paragraph 19 below.

	2014/15	**2015/16**	**2015/16**
	Actual	**Estimate**	**Provisional Outturn**
	£'000	**£'000**	**£'000**
Capital Financing Requirement as at 31 March			
Non – HRA	252,323	296,819	266,842
HRA	149,507	151,213	149,477
TOTAL	**401,830**	**448,032**	**416,319**
Annual change in CFR			
Non – HRA	6,891	44,496	14,519
HRA	-31	1,706	-30
TOTAL	**6,860**	**46,202**	**14,489**

18. The Non-HRA CFR has increased over the two years from £252m to £267m reflecting the schools expansion, re-building and improvements programme, the renewal and replacement of highways, footways and streetlighting, the purchase of properties for temporary accommodation and upgrades and enhancements to ICT systems. The table shows that the total estimated CFR 2015/16 (£448m) differed substantially from the outturn (£416m) which supports the on-going need for accurate capital expenditure profiling.

19. Whilst compliance with this indicator ensures that borrowing is only undertaken for the purposes of purchasing or creating capital assets it is not a measure of affordability. Notwithstanding this, as shown below, the Council's gross borrowings, which include external borrowing and other long term liabilities, are well below the CFR.

	2014/15	2015/16	2015/16
	Actual	**Estimate**	**Actual**
	£'000	**£'000**	**£'000**
Capital Financing Requirement	401,830	448,032	416,319
Gross borrowing	358,720	383,720	358,727
Under borrowing	**43,110**	**64,312**	**57,592**

20. Costs of anticipated borrowings are factored into the annual budget setting process and provision is made in the revenue budget for the costs.

Ratio of Financing Costs to Revenue Stream

21. For these purposes, financing costs comprise debt interest, refinancing costs, Minimum Revenue Provision (General Fund) and depreciation (HRA) less investment income. This total is then divided by the General Fund budget requirement (for the General Fund) or the total HRA income (for the HRA). It is recognised within the Code as a measure of affordability.

	2014/15	2015/16	2015/16
	Actual	**Approved**	**Actual**
	%	**%**	**%**
Ratio of financing costs to net revenue stream			
Non - HRA	14	13	13
HRA Including depreciation	48	41	44

22. Authorities are not required to take into account comparative statistics from other authorities nor performance indicators since each authority has its own unique circumstances reflecting its history and local circumstances. It should, however, take into account movements over time and the reasons for this and the effect its financing costs have on other parts of its budget. Over the two years discussed above the ratios reflect a general downward trend due mainly to a reduction in Minimum Revenue Provision (Non-HRA) and impairment costs (HRA).

Incremental Impact of Capital Investment Decisions – Band D Council Tax

23. This indicator identifies the revenue costs associated with the capital programme and the impact on Council Tax rates.

24. It represents total debt charges ie interest and Minimum Revenue Provision of all General Fund incremental borrowing, dividing the result by the tax base for Council Tax and expressing this as an annual increase in Council Tax for a Band D property.

	2014/15	2015/16	2015/16
	Actual	**Approved**	**Actual**
	£	**£**	**£**
Increase in Council Tax (Band D) per annum	22	45	22

25. As discussed in paragraphs above, during 2015-16, it was estimated that capital expenditure in the year would be substantially higher than it turned out to be which explains the large variance between the approved amount for 2015-16 and the actual.

26. Authorities are not required to take into account comparative statistics from other authorities nor performance indicators since each authority has its own unique circumstances reflecting its history and local circumstances. Nevertheless, this indicator is a measure of the impact of specific capital spending decisions on taxpayers. However, since Council Tax is set in the context of many spending demands and savings and legislative requirements this impact will not be obviously identifiable in bills.

<u>Incremental Impact of Capital Investment Decisions – Average weekly housing rent</u>

27. This indicator identifies the revenue costs associated with proposed capital programme and the impact on Housing Rents.

28. It represents total depreciation expressing this as an increase in the average weekly housing rent. The forecast for HRA dwelling depreciation was based on valuations as they stood at the date of the forecast. Revised values assigned as part of the final accounts 2015-16 were higher than those for forecast, hence the level of depreciation was increased.

	2014/15	2015/16	2015/16
	Actual	**Approved**	**Actual**
	£	**£**	**£**
Increase in average housing rent per week	0.11	-1.71	1.78

29. Authorities are not required to take into account comparative statistics from other authorities nor performance indicators since each authority has its own unique circumstances reflecting its history and local circumstances. Nevertheless, over the long term this indicator is a measure of the impact of specific capital spending decisions on housing tenants. However, since rents are set in the context of various influences this impact will not be obviously identifiable in bills.

Authorised Limit and Operational Boundary for External Debt

30. The Authorised limit indicator establishes a control on the maximum level of "borrowing" allowed to support the Council's capital programme. It relates to the financing of the capital programme by both external borrowing and other forms of liability, such as credit arrangements. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' programmes, or those of a specific council.

31. The Operational Boundary is the limit which external debt is not normally expected to exceed. It is based on current debt plus anticipated net financing need for future years.

32. Details of these limits are included in the table below and the Council does not exceed either of the limits. (£353m at 31 March 2016)

	2014/15	2015/16
	£m	**£m**
Authorised Limit for external debt		
Borrowing and finance leases	402	416
Operational Boundary for external debt		
Borrowing	340	340
Other long term liabilities	19	19
Total	359	359
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing	340	340
Upper limit for variable rate exposure		
Net principal re variable rate borrowing	0	0
Upper limit for principal sums invested over 364 days	28	41

OTHER TABLES USED IN TREASURY MANAGEMENT REPORTS

Changes to Gross and Net Debt

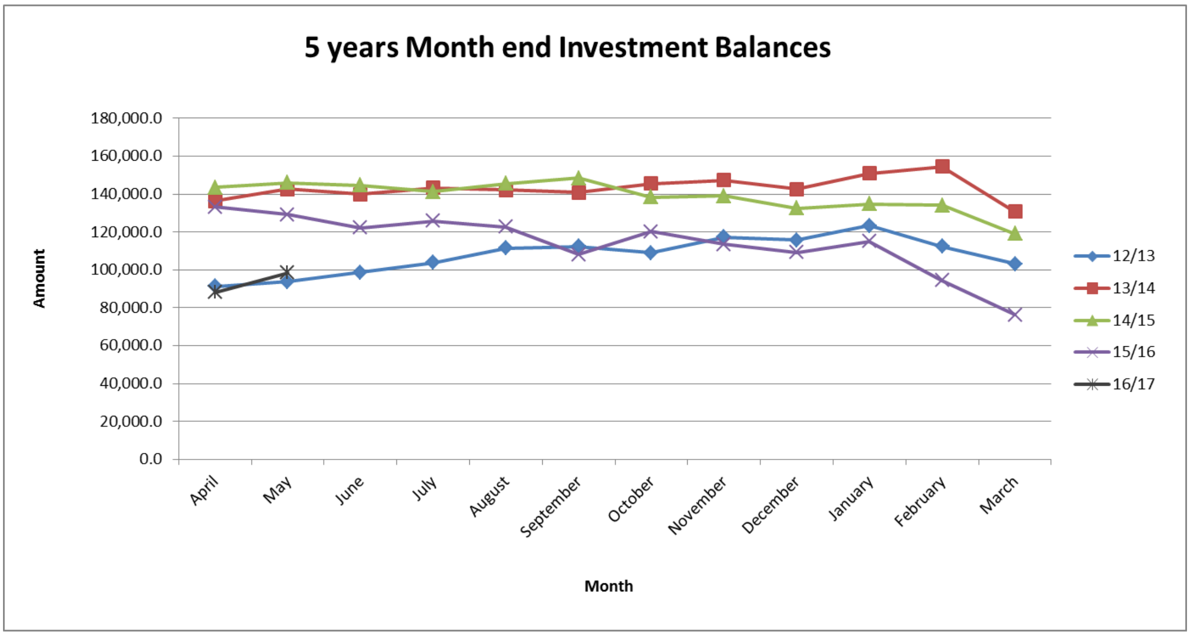
33. This is a table indicating the external debt which should be measured against the Capital Financing Requirement. It is not a measure of affordability but simply evidence of compliance or otherwise with the requirement that in the medium to long term gross debt outstanding should not exceed the Capital Financing Requirement.

	31 March 2016	Average Rate at 31 March 2016	Average Life	31 March 2015	Average Rate at 31 March 2015	Average Life
	£m	%	Years	£m	%	Years
Fixed Rate Borrowing						
Public Works Loans Board (PWLB)	218.5	4.09	35.2	218.5	4.09	36.2
Market	115.8	4.53	36.0	115.8	4.53	37.0
Total Debt	**334.3**	**4.24**	**35.5**	**334.3**	**4.24**	**36.5**
Investments						
In-House	76.2	0.87	74 days	119.1	1.00	214 days
Total Investments	**76.2**			**119.1**		

34. The above analysis assumes loans structured as Lender Option Borrower Option (LOBO) mature at the end of the contractual period. If the first date at which the lender can reset interest rates was used as the maturity date, the average life for market loans would be 1.0 year and for the whole debt portfolio 23.3 years.

35. The reduction in investment balances evidences the use of balances to fund part of the capital programme. The reduced average interest rate earned is caused by the difficulty in seeking longer term returns with a reducing balance. The table below shows the changes in balances over the last five years.

.



Maturity Structure of Fixed Rate Borrowing

36. The table shows the periods in which the Council's fixed term borrowings will mature. The Council's profile is skewed in that it has borrowed £83.8m under LOBO structures with maturities between 2050 and 2078. However, since these options can be exercised within a year Guidance requires that they be recognised as short term debt.

Borrowing Maturity Profile (Assuming Full Term Maturity for LOBOS)

	31st March 2016		**31st March 2015**	
	£m	**%**	**£m**	**%**
Under 12 Months	0.0	0.0	0.0	0.0
12 Months and under 24 Months	10.0	3.0	0.0	0.0
24 Months and within 5 years	22.0	6.6	32.0	9.6
5 years and within 10 years	5.0	1.5	5.0	1.5
10 years and within 20 years	45.0	13.5	35.0	10.5
20 years and within 30 years	10.0	3.0	20.0	6.0
30 years and within 40 years	80.0	23.9	80.0	23.9
40 years and within 50 years	128.5	38.4	128.5	38.4
50 years and above	33.8	10.1	33.8	10.1
Total	**334.3**	**100.0**	**334.3**	**100.0**

Borrowing Maturity Profile (Assuming Earliest Repayment for LOBOS)

	31st March 2016		**31st March 2015**	
	£m	**%**	**£m**	**%**
Under 12 Months	83.8	25.1	83.8	25.1
12 Months and under 24 Months	10.0	3.0	0.0	0.0
24 Months and within 5 years	22.0	6.6	32.0	9.6
5 years and within 10 years	5.0	1.5	5.0	1.5
10 years and within 20 years	45.0	13.4	35.0	10.4
20 years and within 30 years	10.0	3.0	20.0	6.0
30 years and within 40 years	60.0	18.0	60.0	18.0
40 years and within 50 years	98.5	29.4	98.5	29.4
50 years and above	0.0	0.0	0.0	0.0

Total	**334.3**	**100.0**	**334.3**	**100.0**

37. The Council maintains an oversight on the borrowing profile to ensure that all future liabilities can be met by re-payment or re-financing.

LEARNING SESSION

38. A training session was arranged for the evening of 1 June 2016 at which Mr David Whelan, Managing Director Capita Asset Services gave a presentation covering:

- Treasury Management Framework Overview
- LB Harrow Capital Programme and Capital Financing
- Economics and the Markets
- Debt Management
- Investment Strategy and Credit Ratings
- Governance and Scrutiny

39. Mr Whelan was supported by the Director of Finance and two of her colleagues.

40. All Members and Reserve Members of the Committee were invited and seven Members were able to attend. A copy of the presentation has been sent to all Members.

FINANCIAL IMPLICATIONS

41. Whilst this report clearly deals with significant financial matters there are no financial implications arising directly from it.

RISK MANAGEMENT IMPLICATIONS

42. The identification, monitoring and control of risk are central to the achievement of treasury management objectives. Potential risks are identified, mitigated and monitored in accordance with Treasury Management Practice Notes.

43. Risks are included in the Directorate Risk Register.

EQUALITIES IMPLICATIONS

44. Officers have considered possible equalities impact and consider that there is no adverse equalities impact as there is no direct impact on individuals

COUNCIL PRIORITIES

45. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	X	Director of Finance
Date: 14 July 2016		

Ward Councillors notified:	**No**
EqIA carried out:	**No**
EqIA cleared by:	**N/A**

Section 4 - Contact Details and Background Papers

Contact: **Ian Talbot** (Treasury and Pension Fund Manager) Tel: 020-8424-1450 / Email: ian.talbot@harrow.gov.uk

Background Papers: N/A