REPORT FOR: **CABINET**

Date of Meeting:	21 June 2018
Subject:	Treasury Management Outturn 2017/18
Key Decision:	No
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	No, as the recommendation is for noting only
Wards affected:	All
Enclosures:	Appendix 1 – Legislation and Regulations Impacting on Treasury Management Appendix 2 – Treasury Management Delegations and Responsibilities Appendix 3 – Counterparties Appendix 4 – Prudential Indicators 2017/18Outturn

Section 1 – Summary and Recommendations

This report sets out the summary of treasury management activities for 2017/18.

Recommendation

Cabinet is asked to:

(a) Note the outturn position for treasury management activities for 2017/18.

(b) Refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

Reasons

(a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

(b) To keep Cabinet Members informed of treasury management activities and performance.

Section 2 – Report

1. INTRODUCTION

1.1 Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

   "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

   The Council has adopted this definition.

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first main function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with approved counterparties or instruments commensurate with the Council's current investment strategy, providing adequate liquidity initially before considering investment return.

3. The second main function of the Treasury Management service is the funding of the Council's capital programme. This programme provides a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow

surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code (The Prudential Code for Capital Finance in Local Authorities [CIPFA 2017 Edition]) and Treasury Management Code (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes [CIPFA 2017 Edition]), in setting Treasury and Prudential Indicators for the next three years and in ensuring that the Council's capital investment programme is affordable, prudent and sustainable.

5. The Act, the Codes and Ministry for Communities Housing and Local Government Investment Guidance (2018) require the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. A summary of the relevant legislation, regulations and guidance is included as Appendix 1.

6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Treasury Management Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the projected income of the Council for the foreseeable future.

7. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

8. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.2 Reporting Requirements

9. As introduced above, the Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

   Treasury Management Strategy Statement report - The first, and most important report is presented to the Council in February and covers:

   - the capital programme (including Prudential Indicators);
   - the MRP Policy (how residual capital expenditure is charged to revenue over time);
   - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - the Investment Strategy (the parameters on how investments are to be managed).

   Mid-year Review report – This is presented to Cabinet in the autumn and updates Members on the progress of the capital position, reporting on Prudential Indicators and recommending amendments when necessary and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

Treasury Management Outturn report (this report) – This is presented to Cabinet in June and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

Scrutiny - The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMSC). The Council has complied with the Code to the extent that all Treasury Management reports have been properly scrutinised though the efficient conduct of the Council's business has sometimes necessitated consideration by GARMSC subsequent to consideration by Cabinet / Council. This report will be considered by GARMSC on 17 July 2018. Member training on Treasury Management issues is scheduled for 24 July 2018 in order to support Members' scrutiny role.

10. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

11. Further details of responsibilities are given in Appendix 2.

1.3 Matters covered in report

12. The main matters covered in the report are:

- Treasury management outturn (Paragraph 2)
- Treasury position as at 31 March 2018 (Paragraph 3)
- Strategy for 2017/18 (Paragraph 4)
- Borrowing outturn (Paragraph 5)
- Investment outturn (Paragraph 6)
- Compliance with treasury limits and Prudential Indicators (Paragraph 7)
- Minimum Revenue Provision (Paragraph 8)
- Economic background (Paragraph 9)

1.4 Options considered

13. For the reasons discussed above no other options were considered.

2. TREASURY MANAGEMENT OUTTURN

14. There was a favourable variance of £0.7m on the revised capital financing budget of £6.6m as detailed in the following table:

Table 1: Outturn Summary

2017-18	Original Budget	Revised Budget	Outturn	Variation	
	£000	£000	£000	£000	%
Cost of Borrowing	8,073	8,045	7,316	-729	-9.06%
Investment Income	-1,397	-1,400	-1,360	40	2.86%
Total	**6,676**	**6,645**	**5,956**	**-689**	**-10.37%**

Income was lower than budgeted due to the reduction in Council cash balances and in low interest rates available. The cost of borrowing was lower than usual due to deferring external borrowing through use of Council cash balances.

15. The returns from the investment portfolio are benchmarked by the treasury management adviser, Link Asset Services. The need to maintain liquidity to fund the capital programme meant that the average returns of 0.23% were below the London and National average. As a result of holding low cash balances in liquid investments, the opportunities for achieving a higher return were limited.

3. TREASURY POSITION AS AT 31 MARCH 2018

16. The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2017/18 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 2: Outstanding Borrowings and Investments

	31 March 2018	Average Rate at 31 March 2018	Average Life	31 March 2017	Average Rate at 31 March 2017	Average Life
	£m	%	Years	£m	%	Years
Fixed Rate Borrowing						
Public Works Loans Board (PWLB)	218.5	4.09	33.2	218.5	4.09	34.2
Market	105.8	4.29	37.3	115.8	4.53	35.0
Total Debt	**324.3**	**4.15**	**34.5**	**334.3**	**4.24**	**34.5**
Investments						
In-House	16.9	0.23	4.15	65.2	0.59	11 days
Total Investments	**16.9**	**0.23**	**4.15**	**65.2**		

The above analysis assumes loans structured as LOBOs (see paragraph 22 below for definition and further details) 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 18 years and for the whole debt portfolio approximately 25 years

4. STRATEGY FOR 2017-18

17. In the Treasury Management Strategy Statement agreed by Council on 23 February 2017 it was stated that for the next three years the capital programme would continue to be funded to a large extent from grants and revenue resources but that substantial borrowing was also likely to be required. The only other foreseen circumstance in which new long term borrowing in the next three years might be needed would be if part of the LOBO portfolio had to be refinanced early.

18. Neither of the circumstances necessitating additional borrowing arose. No new long-term borrowing was taken.

19. Investments continued to be dominated by low counterparty risk considerations resulting in low returns compared to borrowing rates.

20. No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made it unviable.

5. BORROWING OUTTURN

21. There was no additional borrowing but three higher interest loans were repaid on maturity. The table below sets out the borrowing maturity profile.

Table 3: Borrowing Maturity Profile (Assuming Full Term Maturity for LOBOS)

	31st March 2018		**31st March 2017**	
	£m	**%**	**£m**	**%**
Under 12 Months	10.0	3.1	10.0	3.0
12 Months and under 24 Months	12.0	3.7	10.0	3.0
24 Months and within 5 years	5.0	1.5	12.0	3.6
5 years and within 10 years	5.0	1.5	5.0	1.5
10 years and within 20 years	50.0	15.4	45.0	13.5
20 years and within 30 years	0.0	0.0	10.0	3.0
30 years and within 40 years	80.0	24.7	80.0	23.9
40 years and within 50 years	128.5	39.6	128.5	38.4
50 years and above	33.8	10.4	33.8	10.1
Total	**324.3**	**100.0**	**334.3**	**100.0**

22. In aggregate there are £50.8m of Lender Option Borrower Option (LOBO) structured loans shown in the table above as having maturities of between 42 and 60 years. In exchange for an interest rate that was below that offered on long term debt by the PWLB the lenders are permitted to reset interest rates five years after the loan is drawn and either semi-annually or annually thereafter. Should interest rates on these loans increase, the Council has the option to repay at no cost. The table below restates the maturity profile by including LOBO loans at their first interest reset date.

Table 4: Borrowing Maturity Profile (Assuming Earliest Repayment for LOBOS)

	31st March 2018		**31st March 2017**	
	£m	**%**	**£m**	**%**
Under 12 Months	60.8	18.8	80.8	24.2
12 Months and under 24 Months	12.0	3.7	10.0	3.0
24 Months and within 5 years	5.0	1.5	12.0	3.6
5 years and within 10 years	5.0	1.5	5.0	1.5
10 years and within 20 years	50.0	15.4	45.0	13.4
20 years and within 30 years	0.0	0.0	10.0	3.0
30 years and within 40 years	80.0	24.7	60.0	18.0
40 years and within 50 years	98.5	30.4	98.5	29.4
50 years and above	13.0	4.0	13.0	3.9
Total	**324.3**	**100.0**	**334.3**	**100.0**

23. The approach to funding capital expenditure, as discussed in past strategy statements, is to use internal funds wherever possible in recognition of the unfavourable gap between investment returns and borrowing costs. Consideration continues to be given as to the cost and benefits of the premature repayment of debt and the premium which would be incurred. However, in view of the cost and the estimated future requirements of the capital programme, which could necessitate further borrowings, it was not felt to be appropriate to make any premature repayments during 2017/18.

6. INVESTMENT OUTTURN

24. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18. The Bank of England base rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years.

25. The Council manages its investments in-house and invests with the institutions listed in the Council's approved Counterparty list. The treasury strategy permits investments for a range of periods from overnight to three years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Further details of the credit quality of counterparties are given in Appendix 3.

26. As at 31 March 2018, most of the investment portfolio (69%) was invested with two banks, Lloyds (36%) and RBS (33%). The counterparty policy permits up to 50% to be invested with Lloyds / HBOS and 60% with RBS.

27. All of the cash investments were held for less than seven days by year-end. The investment portfolio achieved an average return of 0.23%. reflecting the short duration of investments and the low level of deposit rates during the year

28. The table below sets out the investment balances as at 31 March 2018.

Table 5: Investment Balances

	31st March 2018		31st March 2017	
	£m	%	£m	%
Specified Investments				
Banks & Building Societies	0	0	11.3	17.3
Money Market Funds	1.6	9.5	1.6	2.5
Local Authority	0.0	0.0	0.0	0.0
Non –Specified Investments				
Banks & Building Societies	15.1	89.6	52.1	80.0
Enhanced Money Market Funds	0.2	0.9	0.1	0.2
Total	**16.9**	**100.0**	**65.1**	**100.0**

Investment balances have reduced due to the progress made on agreed initiatives and priorities. Average balances above £30 million were maintained during the year. Included in the above balances are Pension Fund balances of £1.1m. In aggregate 6% of interest earned is allocated to internal funds.

7. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

29. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. Under this framework, individual authorities are responsible for deciding the level of their affordable borrowing for the Council's capital investment plans that is demonstrated to be affordable, prudent and sustainable.

30. The Act and the supporting regulations require the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. The indicators for 2017/18 were approved by the Council on 23 February 2017. During the financial year the Council operated within the treasury limits and Prudential Indicators as shown in Appendix 4.

31 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall Capital Strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. The Capital Strategy must be implemented in readiness for the development of the 2019/20 Treasury Management Strategy Statement. This will be reported to GARMSC prior to coming to Cabinet and Council in February 2019,

32 **Markets in Financial Instruments Directive II (MiFID II)**
The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

8. MINIMUM REVENUE PROVISION (MRP)

31. Under the statutory regulations the Council must determine for the current financial year an amount of minimum revenue provision (MRP) which it considers to be prudent. The MRP is the means by which capital expenditure which is financed by borrowing or credit arrangements is funded by the revenue account over the useful life of the asset, (the period during which assets such as land, building, plant and machinery are used to provide services).

9. ECONOMIC BACKGROUND

32. The Council has engaged Link (previously Capita) Asset Services, Treasury Solutions as its external treasury management adviser. A short commentary follows, provided by Link in April 2018 summarising their views on developments in the world economy and interest rates during 2017/18.

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.
The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.
Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

10. IMPLICATIONS OF THE RECOMMENDATIONS

33. The recommendations are asking the Cabinet mainly to note the position on treasury management activities. They do not affect the Council's staffing / workforce and have no equalities, procurement, data protection or community safety impact.

11. PROCUREMENT IMPLICATIONS

34. There are no procurement implications arising from this report.

12. LEGAL IMPLICATIONS

35. The report has been reviewed by the Legal Department and comments received are incorporated into the report.

13. FINANCIAL IMPLICATIONS

36. In addition to supporting the Council's revenue and capital programmes the Treasury Management revised budget of £6.1m discussed in paragraph 14 is an important part of the General Fund budget. Any savings achieved, or overspends incurred, have a direct impact on the achievements of the budgetary policy. There is no direct financial

impact of paying the London living Wage (LLW) in relation to the treasury management strategy.

14. PERFORMANCE ISSUES

37. The Council meets the requirements of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practices for the Treasury Management function.

38. As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. These indicators and performance are detailed in Appendix 4

15. ENVIRONMENTAL IMPACT

39. There are no direct environmental impacts.

16. RISK MANAGEMENT IMPLICATIONS

40. The identification, monitoring and control of risk are central to the achievement of the treasury objectives. Potential risks are included in the Directorate risk register and are identified, mitigated and monitored in accordance with treasury practice notes approved by the Treasury Management Group.

17. EQUALITIES IMPLICATIONS/PUBLIC SECTOR EQUALITY DUTY

41. There is no direct equalities impact.

18. CORPORATE PRIORITIES

42. 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 Date: 8 June 2018	x	Director of Finance
Name: David Hodge Date: 17 May 2018	x	on behalf of the Monitoring Officer

Section 3 - Procurement Officer Clearance

Name: Nimesh Mehta Date: 16 May 2018	x	Head of Procurement

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

Section 6 - Contact Details and Background Papers

Contact: Iain Millar (Treasury and Pensions Manager) Tel: 020-8424-1432 / Email: iain.millar@harrow.gov.uk

Background Papers: None

Call-In Waived by the Chair of Overview and Scrutiny Committee	**NOT APPLICABLE** *[Call-in does not apply as the Recommendation is for noting only]*

APPENDIX 1

LEGISLATION AND REGULATIONS 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 prevent 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 foreseeable 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. Ministry for Communities Housing and Local Government Investment Guidance (revised February 2018)

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 2018

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 revised (CIPFA 2017)

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 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.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011) – Guidance revised 2017

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

TREASURY MANAGEMENT DELEGATIONS AND RESPONSIBILITIES

The respective roles of the Council, Cabinet, GARMSC, the Section 151 officer, the Treasury Management Group the Treasury and Pension Fund Manager and the Treasury Team are summarised below. Further details are set out in the Treasury Management Practices.

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

GARMSC 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 Pensions 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 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 for recommending changes to the Treasury Management Group

APPENDIX 3

Counterparties

As agreed by Cabinet on 16 February 2017 the Council's criteria for an institution to become counterparty are:

Specified Investments
These are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the lender has the right to be repaid within 364 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.

Table 10 Specified Investments

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 UK or AAA Sovereign	In-house
Money Market Funds	AAA	In-house

Non-Specified Investments
Non-specified investments are any other type of investment (i.e. not defined as Specified above).They normally offer the prospect of higher returns but carry a higher risk. The identification and rationale supporting the selection of these other investments are set out in the table below.

Table 11 Non - Specified Investments

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Term deposits – banks and building societies (excluding Lloyds / HBOS)	A Long Term F1 Short-term UK or AAA Sovereign	In-house	50%	3 months
Lloyds / HBOS	A Long Term F1 Short-term	In-house	50%	6 months
Callable Deposits	A Long Term F1 Short term	In-house	20%	3 months
UK nationalised Banks [RBS]	F2 Short-term	In-house	60%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption
Corporate bonds pooled funds, other non-standard investments and gilts		In house	£10m in total	Dependent on specific agreement
HB Public Law Ltd		In house	£0.1m	36 months

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Investment Property Strategy *		In house	£20.0m	Dependent on specific agreement
Concilium Business Services Ltd t/a Smart Lettings Ltd		In house	£0.274m	36 months
Concilium Group Startup capital		In house	£0.702m	60 months
Concilium Group 5% Long Term Investment		In house	£1.5m	Dependent on specific agreement
Cultura London re Harrow Arts Centre		In house	£1m	25 years
Housing Development Vehicle (LLP) – Initially on acquisition of 100 homes		In house	£30m	Dependent on specific agreement

*Investment to date totals £5.3m

APPENDIX 4

PRUDENTIAL INDICATORS 2017/18 OUTTURN

Capital Expenditure and Funding

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Table 1: Actual Capital Expenditure

	2016/17	2017/18	2017/18
General Fund	**Actual**	**Revised Budget**	**Actual**
	£'000	**£'000**	**£'000**
Expenditure	**78,148**	**168,795**	**82,254**
Funding:			
Grants	22,160	21,187	13,309
Capital Receipts			6,403
Revenue Financing		69	487
Section 106 / Section 20 contributions	401	5,732	5,056
TOTAL	**22,561**	**26,988**	**25,255**
Net financing need for the year	**55,587**	**141,807**	**56,999**

	2016/17	2017/18	2017/18
HRA	**Actual**	**Revised Budget**	**Actual**
	£'000	**£'000**	**£'000**
Expenditure	**11,603**	**32,457**	**11,877**
Funding:			
Grants	48		
Capital Receipts	3,013	17,674	1,734
Revenue Financing	7,287	12,293	8,266
Section 106 / Section 20 contributions	1,255	314	400
TOTAL	**11,603**	**30,281**	**10,400**
Net financing need for the year	**0**	**2,176**	**1,477**

The funding excludes the Minimum Revenue Provision (depreciation on General Fund assets) which offsets the need for external borrowing. Further detail and explanations are contained within the Revenue and Capital Outturn report.

From an affordability perspective, which is the treasury consideration, the increase in expenditure has impacted on interest income. Almost all of the Housing Revenue Account's (HRA's) capital expenditure of £11.6m is funded from revenue sources and capital receipts.

Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2016/17 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non-HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 18 February 2016.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 2: Capital Financing Requirement

	2016/17	2017/18	2017/18
	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Financing Requirement as at 31 March			
Non – HRA	303,652	425,887	343,209
HRA	149,537	154,701	151,014
TOTAL	**453,189**	**580,588**	**494,223**
Annual change in CFR			
Non – HRA	40,086	122,235	39,557
HRA	0	5,164	1,477
TOTAL	**40,086**	**127,399**	**41,034**

Reasons for annual change

	2016/17	2017/18	2017/18
	Actual	Estimate	Actual
	£'000	£'000	£'000
Capital Expenditure	89,751	201,252	94,131
Non Borrowing sources of funding	-34,164	-57,269	-35,655
Minimum Revenue Provision	-15,501	-16,584	-17,442
TOTAL	**40,086**	**127,399**	**41,034**

The CFR value is greater than the outstanding borrowing (including finance leases) of £341.9m, indicating the level of cash generated by revenue balances.

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 3: Borrowing

	2016/17	2017/18	2017/18
	Actual	**Estimate**	**Actual**
	£'000	**£'000**	**£'000**
Capital Financing Requirement	453,189	580,588	494,223
Gross borrowing	351,466	350,434	341,918
Under borrowing	**101,723**	**230,154**	**152,305**

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2017/18 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Table 4: Boundaries

	2016/17	2017/18
	£m	**£m**
Authorised Limit for external debt		
Borrowing and finance leases	469	568
Operational Boundary for external debt		
Borrowing	334	448
Other long term liabilities	16	16
Total	350	464
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing	334	448
Upper limit for variable rate exposure		
Net principal re variable rate borrowing	0	0
Upper limit for principal sums invested over 364 days	60	60

The approved operational boundary for debt is based on actual debt at the start of the year plus the actual borrowing requirement for the net projected capital expenditure in the year. The authorised limit is based on CFR balances. Total borrowing has been within both limits during the year.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 5 - Ratio of Financing Costs to Revenue Stream

	2016/17	2017/18	2017/18
	Actual	Approved	Actual
	%	%	%
Ratio of financing costs to net revenue stream			
Non - HRA	14.2	15.4	14.7
HRA Including depreciation	40.4	43.1	40.4

This indicator identifies the trend in the cost of capital (depreciation, impairments, borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 6 - Incremental Impact of Capital Investment Decisions (excluding Regeneration)

	2016/17	2017/18	2017/18
	Actual	Approved	Actual
	£	£	£
Incremental impact of capital investment decisions			
Increase in Council Tax (Band D) per annum	38.98	63.21	37.51

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