

Report of Chief Officer - Financial Services

Report to Corporate Governance and Audit Committee

Date: 28th January 2016

Subject: Treasury Management Governance Report 2015

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. This annual report provides assurance that the Treasury Management (TM) function is operating within its governance framework.
2. TM fully complies with the current CIPFA Code of Practice, the Prudential Code and the revised guidance notes for practitioners issued in 2013.
3. Since the last update all borrowings and investments undertaken have been in accordance with the approved governance framework.
4. TM operates within the governance framework and also uses additional market intelligence and information gathered from a variety of sources. These sources have been integral to protecting the authority from undue risk in the financial and money markets.
5. Internal Audit has provided substantial assurance on the control environment and compliance in their 2014/15 audit report.

Recommendations

6. Note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Code and revised CIPFA guidance notes issued in 2013. All borrowing and investments undertaken have been compliant with the governance framework.

1. Purpose of this report

- 1.1 This annual report outlines the governance framework for the management of the Council's TM function. This report also reviews compliance with updated CIPFA guidance notes for practitioners on the Prudential Code for Capital Finance in Local Authorities issued in 2011.

2 Background information

- 2.1 The operation of the TM function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011 in particular: The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators.

- Any in year revision of these limits must be set by Council.
- Policy statements are prepared for approval by the Council at least two times a year.

- 2.2 TM is responsible for managing the Housing Revenue Account and General Fund long term debt which is in the region of £1.55bn and investments that currently stand at around £20m. It also manages the cash flow requirements of the Council.

3 Main issues

- 3.1 The role of the Corporate Governance and Audit Committee is to ensure that TM is adhering to and operating within its governance framework, as shown in Appendix A.

- 3.2 During the year TM has continued to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, Prudential Code (2011) and its guidance notes (2013). As such a strategy report was presented to Executive Board in February together with an update in November. A further outturn report for the previous financial year was presented in July.

- 3.3 During the year all borrowings and investments undertaken have been in accordance with the approved governance framework and are in line with the Treasury Management Policies and Practices.

- 3.4 The November Executive Board update report highlighted that the current borrowing strategy continues to fund the borrowing requirement of the capital programme from short dated loans and internal cash balances. There will come a point when rates begin to rise and more expensive longer dated funding will be required, even though this continues to be pushed further back as the economic outlook evolves. The strategy of deferring long term borrowing will increase the amount of debt that the Council is funding from short term loans and its balance sheet to a forecast £532m. This exposure is considered manageable given historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong. These factors will continue to be monitored and should be considered in the context of the stability of the current debt maturity profile.

- 3.5 The Council's current long term debt of £1.367bn has an average maturity of just over 38 years if all debts run to maturity. Approximately 33% of the Council's debt

has options for repayment, in the unlikely event that all these options were exercised at the next option date then the average maturity of long term debt would be lowered to 21½ years. This compares favourably with the average maturity of the UK's government debt portfolio which remains just above 14 years and the US where the average is just under 6 years (source FT 20/10/2015). The existing profile of the Council's debt provides considerable certainty of funding costs.

- 3.6 To mitigate against the exposure to rising interest rates the Council is exploring a number of forward funding options which will give the Council the ability to lock in future funding at current rates.
- 3.7 TM continues to review key aspects of the framework including prudential indicators to ensure that they continue to be fit for purpose and provide the right evidence that TM is operating within acceptable levels of risk. The strategy updates to Executive Board include an update on prudential indicators. TM is complying with all of CIPFA's prudential indicators.
- 3.8 The operation of TM within its governance framework is also complimented by additional market intelligence and information gathered from a variety of sources. For example when the Icelandic banking crisis unfolded the Council had already reduced its investments in a number of banks, despite the rating agencies indicating that they were sound investments. These tools involve:
- The use of real time market information on the financial and money markets in the UK, Europe, US and other major economies;
 - Discussions with market participants and brokers;
 - Use of treasury advisors to test market views;
 - Networking and sharing of information with Core Cities and West Yorkshire districts;
 - Attending market seminars providing technical and economic updates;
 - Daily market updates from financial institutions and brokers;
 - Thorough review of new financial products and how they fit within the governance structure; and
 - Undertaking continuing professional development and ensuring that appropriate training is undertaken.
- 3.9 Furthermore TM undertakes to respond to all treasury management consultations and influence the national governance framework, through attendance at regular core city meetings.
- 3.10 Internal Audit has completed its annual review of the TM function. This involved a risk based system audit of TM to evaluate and validate key systems controls. Key controls for a sample of investments, loans and interest payments for 2014/15 were reviewed. Internal Audit report issued 20th February 2015 provided two opinions:
- Control Environment - Substantial Assurance (highest level). This provides assurances that there are minimal control weaknesses that present very low risk to the control environment.
 - Compliance with the Control environment - Substantial Assurance (highest level). This level indicates that the control environment has substantially operated as intended although some minor errors have been detected in the sample tested.

- 3.11 The outcome of the 2015/16 internal audit will be reported as part of the Financial Planning and Management Arrangements 2016 report expected to be made to Committee in July 2016.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 There has been no consultation in relation to this report

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This report does not have any direct equality and diversity/cohesion and integration issues.

4.3 Council policies and Best Council Plan

- 4.3.1 The execution of the Treasury Strategy enables funding to be raised and managed in the most efficient manner. This supports revenue and capital spend in line with City Priority Plans and the Best Council Plan.

4.4 Resources and value for money

- 4.4.1 The execution of the Treasury Strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 11th February 2015.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The legislative framework which governs TM is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury Management Code of Practice, the prudential code 2011 and revised guidance notes issued in 2013.
- 4.5.2 There are no legal or access to information issues arising from this report.

4.6 Risk Management

- 4.6.1 As set out in the Treasury Management Policy Statement, TM activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.
- 4.6.2 By complying with and adopting the CIPFA Treasury Management Code of Practice, Prudential Code and guidance notes, assurance is given that arrangements are in place to manage risks effectively.

5 Conclusions

- 5.1 This report confirms that the Council is operating within its governance framework and as such is complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2014/15 internal audit report gave TM substantial assurance on both control and compliance.

6 Recommendations

- 6.1 Note that Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Code and revised guidance

notes issued in 2013. All borrowing and investments undertaken have been compliant with the governance framework.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Treasury Management Governance Framework

FULL COUNCIL	EXECUTIVE BOARD	CORPORATE GOVERNANCE & AUDIT COMMITTEE	RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
↓ DELEGATIONS TO OFFICERS			
DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED	
Officer delegation scheme (Executive Functions)	Deputy Chief Executive	Making arrangements for the proper administration of the authority's financial affairs	
Directors delegation under Articles, Specific delegations of the Deputy Chief Executive 12.4 Page 10	Discharged through Chief Officer Financial Services	Making arrangements for the proper administration of the authority's financial affairs (includes S151 responsibilities as his deputy)	
Executive Functions Specific Delegations Page 24 (d) Treasury Management	To Chief Officer Financial Services	The provision of financial services, including treasury management (encompassing the making of payments and borrowing of loans)	
Miscellaneous Functions - Financial Regulation 20: Treasury Management Page 32	Function delegated to Chief Officer (Financial Services) with the power to sub delegate to the Chief Officer (Audit and Investments)	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements	

↓ OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK

POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Off. Financial Services Chief Off. Audit & Investment Principal Financial Manager Senior Treasury Manager Assistant Finance Manager	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code Guidance Notes	Principal Financial Manager Senior Treasury Manager Assistant Finance Manager	Ensure compliance and that any changes are reflected in the operating framework.