

Report of Chief Officer Audit and Investment

Report to Corporate Governance and Audit Committee

Date: 9th November 2013

Subject: Treasury Management Governance Report 2013

| | | |
|--|------------------------------|--|
| 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. TM fully complies with the current CIPFA Code of Practice and the Prudential Code.
2. TM is also compliant with the revised CIPFA guidance notes for practitioners issued in 2013.
3. 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.
4. TM operates within its scheme of delegation and Internal Audit has provided substantial assurance on the control environment and compliance in their 2012/13 audit report.

Recommendations

5. Note that there is assurance that Treasury Management continues to adhere to the CIPFA Code of Practice and the Prudential Code.
6. Note that Treasury Management complies with revised CIPFA guidance notes issued in 2013.
7. Note the updated delegations in respect to Treasury Management as outlined in Appendix A.

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 2013.

2 Background information

- 2.1 The operation of the Treasury Management 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 (amended 2009 and 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 £1.5bn and investments that currently stand at around £40m. 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 Treasury Management is adhering to and operating within its governance framework. This involves compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on treasury management and guidance notes and a revised prudential code (2009 and 2011).
- 3.2 The Treasury Management Strategy 2013/14 report was approved by Executive Board on 15th February 2013. This report and the treasury management operation fully complies with the CIPFA codes of practice.
- 3.3 CIPFA subsequently issued a revised Prudential Code for Capital Finance in Local Authorities – Guidance notes for practitioners 2013. The code makes one recommended change to the reporting of the maturity profile of loans that are greater than 10 years. The Table below now shows maturing debt over 10 years that is split into bands of 10 years. These changes have been reflected in the half year update on Treasury Management to Executive Board in November.

| Maturity structure of fixed rate borrowing 2013/14 | Lower Limit | Cumulative Upper Limit | Projected 31/03/2014 |
|--|-------------|------------------------|----------------------|
| under 12 months | 0% | 15% | 0.00% |
| 12 months and within 24 months | 0% | 20% | 9.72% |
| 24 months and within 5 years | 0% | 35% | 21.71% |
| 5 years and within 10 years | 0% | 40% | 12.34% |
| 10 years and within 20 years | | | 3.18% |
| 20 years and within 30 years | | | 0.41% |
| 30 years and within 40 years | 25% | 90% | 18.29% |
| 40 years and within 50 years | | | 34.37% |
| 50 years and above | | | 0.00% |
| | | | 100% |

- 3.4 There are no further material changes in the guidance and in summary the updated CIPFA guidance provides a catch up on a variety of regulatory and code changes implemented since 2007.
- 3.5 TM operates under a scheme of delegation which is shown in Appendix A. The scheme has been updated to reflect the Deputy Chief Executives revised role and that the Treasury function now sits within the Audit and Investment section and reports to the Chief Officer – Audit and Investment.
- 3.6 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 profession development and ensuring that appropriate training is undertaken.
- 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 Half year update on Treasury strategy 2013/14, to November Executive Board, includes an update on prudential indicators. TM is complying with all prudential indicators.
- 3.8 Furthermore TM undertakes to respond to all treasury management consultations and influence the national governance framework.
- 3.9 Internal Audit has undertaken and concluded 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 from 2012/13 were reviewed. Internal Audit report issued 2nd April 2013 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.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 CIPFA have consulted with all local authorities prior to the issue of the revised codes and the Council has participated in this consultation. There has been no further 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 City Priorities

- 4.3.1 The execution of treasury strategy enables cash funding to be raised and managed in the most efficient manner and this supports revenue and capital spend in line with City Priority Plans and the Council Business Plan.

4.4 Resources and value for money

- 4.4.1 Execution of 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 15th February 2013.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The legislative framework which governs treasury management is outlined in section 2.1. This framework includes compliance with the CIPFA Treasury management code of practice and guidance notes and the prudential code.
- 4.5.2 The main changes to the revised CIPFA Treasury Management Code of Practice and guidance notes are highlighted in section 3.3 and have been adopted.
- 4.5.3 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, treasury management activities are carried out within a risk management framework and the management of risk are 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 complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2012/13 internal audit gave TM substantial assurance on both control and compliance.

6 Recommendations

- 6.1 Note the assurance that Treasury Management continues to adhere to the CIPFA Code of Practice and guidance notes and the Prudential Code.
- 6.2 Note that treasury management complies with revised CIPFA guidance notes issued in 2013.
- 6.3 Note the updated delegations in respect to treasury management as outlined in Appendix A.

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.

DELEGATIONS IN RELATION TO TREASURY MANAGEMENT

| 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 | |
| Sub delegation scheme of Deputy Chief Executive (a) S151 responsibilities Page 12 | Discharged through Chief Officers | Making arrangements for the proper administration of the authority's financial affairs | |
| Sub delegation scheme of Deputy Chief Executive (b) treasury management Page 12 | To Chief Officers in relation to areas within their remit | The provision of financial services specifically Treasury Management (including the making payment and borrowing of loans) | |
| Sub delegation scheme of Deputy Chief - Miscellaneous 73 Page 42 -Rule 16.3 Financial Procedure Rules – Treasury Management) | Function discharged by Chief Officer Audit and Investment | All money in the hands of the Council shall be under the control of the Deputy Chief Executive. Employees of the Council must not invest Council monies without the prior approval of the Director of Resources. | |
| Sub delegation scheme of Deputy Chief - Miscellaneous 74 Page 43 -Rule 16.4 Financial Procedure Rules – Treasury Management) | Function discharged by Chief Officer Audit and Investment | All executive decisions on borrowing, investment or financing shall be delegated to the Deputy Chief Executive. | |
| ↓ OPERATIONAL AUTHORITY OF OFFICERS | | | |
| POLICY DOCUMENT | TO WHOM | OPERATIONAL AUTHORITY | |
| Treasury Management Policy (section 10) – execution of treasury strategy | Chief Off. Audit & Investment Principal Financial Manager Treasury Manager Assistant Finance Manager | Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations | |

