FINANCE AND SERVICES SCRUTINY COMMITTEE

5 FEBRUARY 2018

PRESENT: Councillor M Rand (Chairman); Councillors B Everitt (Vice-Chairman), J Bloom, J Chilver, S Lambert, L Monger (in place of M Smith), R Newcombe, M Stamp, R Stuchbury and M Winn.

APOLOGIES: Councillors E Sims and M Smith.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 8 January, 2018, be approved as a correct record.

2. TREASURY MANAGEMENT STRATEGY 2018-19

The Committee received a report on the Treasury Management Strategy for 2018/19. The Treasury Management Statement, Treasury Management Strategy Statement and the Annual Investment Strategy, attached as appendices to the Committee report, would be reported to full Council on 22 February, 2018, for approval.

The annual Treasury Management Strategy included Prudential Indicators that were used as part of the self governance framework. The Committee report provided supplementary background information to the Strategy and summarised a number of issues. The key messages were:-

- Investments – the primary governing principle would remain with security over return and this was reflected in the criteria for selecting counterparties.
- Borrowing – overall, this remained fairly constant over the period covered by this report and the Council would remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt.
- Governance – strategies were reviewed by the Audit Committee with continuous monitoring which included Mid-Year and Year End reporting.

The Prudential Code for Capital Finance in Local Authorities (the Code) was a professional Code that set out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best met their service delivery objectives as long as they were affordable, prudent and sustainable, subject to Government reserve powers to restrict borrowing for national economic reasons.

The Code required the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management. The indicators also formed the basis for in-year monitoring and reporting.

The limits and indicators that the Authority were required to determine by the code were:-

Capital and Debt Indicators

- Capital Expenditure – represented the agreed Capital Programme and set out the planned capital expenditure over the next three years.
- Capital Financing Requirement – the amount the Authority needed to borrow in order to deliver its Capital Expenditure plans.
- Affordability Index – this was the proportion of the Authority's income that was taken up by loan repayments and interest. The more the Authority borrowed the less was available for delivering services.

Treasury Management Indicators

- Exposure to Interest Rate Risk – the maximum proportion or borrowing which could be on either fixed or variable interest rates. By setting a maximum proportion a limit was placed on the amount by which the Authority's finances could be affected by movements in base rates.
- Maturity Profile – the maximum length of time over which borrowing could be taken. Authorities could borrow for any length providing they could afford to do so.
- Authority Limit – the combined maximum amount the Authority could take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes.
- Operational Limit – the amount the Authority realistically expected to borrow and represented the figure that the Authority would not expect to exceed on a day to day basis.

The Strategy had been drawn up in association with the Council's treasury management advisors, Link Asset Services and reflected up to date information and advice. There had been no significant changes to the 2018/19 strategy.

The Committee was informed that the Council's capital expenditure plans were the key driver of treasury management activity. The Capital Programme for 2018/19 had been approved by Council on 31 January, 2018 and provided forecasts of receipts and the position with regards to current and future major investment projects. A total capital spend of £10.85m had been approved for 2018/19.

A number of changes in respect of anticipated resources have been factored into the programme and were detailed in the report. While there were no explicit requirements for further loans or borrowings the report explained that borrowing decisions were made on a case by case risk assessment basis. The reduced borrowing costs for 2018/19 was a direct result of decisions to borrow less against agreed plans.

Other matters covered in the report including:-

- that the strategy had been updated in 2017/18 to allow the Council to lend to parish councils, if the opportunity arose (a £500,000 and six month limit had been set).
- a Commercial Property Strategy which included a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100K from the New Homes Bonus (NHB) Fund had been agreed by Council in 2017 although no draw down had taken place, and was unlikely until 2018/19.
- that in December 2017, CIPFA had issued a revised Treasury Management Code of Practice and a revised Prudential Code which focused on non-treasury investments and especially on the purchase of property with a view to generating income. CIPFA had issued a statement that accepted that revising codes at this late stage for the current 2018-19 budget cycle would be difficult. The codes required all local authorities to produce detailed Capital Strategies, though CIPFA accepted that authorities may not be able to implement this in the 2018-19 budget cycle.
- that the Council was waiting on the of a DCLG consultation undertaken in December 2017, which had focussed particularly on non-financial asset investments. The Government believed that local authorities needed to demonstrate more transparency and openness in relation to investment activities. The DCLG were looking to extend the principle of Security, Liquidity and yield to non-financial investments.
- information on the Minimum Revenue provision (MRP), including that the Government had launched a consultation suggesting four key changes to the current

MRP. It was anticipated that revised guidance would come into force from 1 April 2018.

- information in relation to IFRS arising from the 2018/19 Accounting Code of Practice proposals for financial assets.
- on the difficult investment environment which impacted on the Council's ability to get material returns from investments. The Council's treasury advisor, Link Asset Services, as part of their service had provided a view on the future forecast rates for Base Rate and PWLB up until March 2021.
- that, from 3 January 2018, the EU had introduced a "Markets in Financial Instruments Directive" (MIFIS 2) to regulate firms who provided services to clients linked to financial instruments and the way they were traded. Under MiFID II, all local authorities were classified as retail counterparties and had to consider whether to opt up to professional status to be able to invest in certain funds and products. This would impact on AVDC who would be opting in to it.
- information on investments and loans as at 31 December 2017, as follows:-
  - Borrowings – Fixed Rate Funding - £22.886m at an average rate of 3.545%
  - Investments – Fixed Rate and Notice Account Investments - £56.129m at an average rate of 0.518%.
- that the Council operated an Interest Equalisation Reserve for a number of years to smooth out fluctuations in interest rates. At the end of 2017/18, the reserve was estimated to be £2.718m.
- that the Credit Quality/Rating table in the Creditworthiness policy (Banks) should be updated with points 1.2 to 1.4 inclusive combined into a point 1.2, to indicate that these all referred to non UK banks.

Members requested further information and were informed:-

(i) that the Council had agreed in September 2017 to set up a Commercial Property Strategy which included a capital fund of £100m. However, the Council was still awaiting clarification as the Government had introduced additional controls for Council borrowings for such Strategies. It was confirmed that although there had been no borrowings made to date (or any borrowing costs incurred), a Panel still needed to be established that would approve expenditure within the overall limit of the Strategy, subject to agreement on satisfactory business case / risk assessment proposals.

(ii) that any proposals that required borrowings above the authorised borrowing limits would be considered by scrutiny before being submitted to full Council for approval.

(iii) that the training needs of Members and Treasury Management Officers would be reviewed in 2018/19, in line with the CIPFA Code requirement.

(iv) that the Council was complying with all investment rules and guidance relating to the introduction of the MiFID II legislation.

(v) that further consideration could be given to managing investments through the Public Sector Deposit Fund managed by CCLA Investment Management Limited.

(vi) with an explanation of the average rate (3.545%) for borrowings made by the Council. It was explained that this was an overall blended rate comprising both long-term and short-term borrowings.

RESOLVED –

(1) That Council be recommended to approve the Treasury Management Strategy for 2018/2019, along with the Prudential Indicators and Minimum Revenue Provision policy provision, as detailed in the appendices to the report.

(2) That the Committee's concerns regarding the delay in establishing the Panel that could approve investment proposals under the Commercial Property Strategy, and regarding borrowings above the authorised borrowing limits be mentioned in the report to full Council.

3. FINANCIAL REPORTING: PROPOSALS FOR DISCUSSION

The Council had undergone significant changes in the last 2 years with major organisational restructuring and changes. At its meeting in November 2017, the Finance and Services Scrutiny Committee had recommended that the Quarterly Finance Digest be refreshed to ensure that Members were getting sufficient information to understand the financial position of the Council and any inherent and emerging risks.

Financial Reporting Requirements

The Council needed to demonstrate how well money was being spent and then report it appropriately. There were a number of good principles in relation to this, namely:

- Members should receive regular and accurate accruals based financial information including the risks to the financial position and how they are being managed.
- Information for Committees should be summarised appropriately, and provide details on the next steps/ required actions.
- The level of information should be commensurate with decision making required.
- Committee Members should receive regular and accurate information on the balance sheet.
- There should be a link to operational performance and financial reporting.
- Reporting needs should be informed by users
- Reports should be user friendly and understandable, and financial terminology explained
- Reports should be indicative that financial performance was aligned to operational performance.
- Allow for exception reporting/ RAG rated, with appropriate risks highlighted.

A number of options had been considered on how financial information could be presented to Members, who would also receive annual financial information as part of the Annual report.

Currently, the Quarterly Finance Digest was the main vehicle for reporting to Members on the Council's financial performance to Members. Recent feedback from Internal Audit and from the Scrutiny Committee suggested that whilst this provided a good financial overview of the Council, some additional information was required.

One option would be for interim changes to be made to the current reporting format that would allow for immediate progression on changes to reporting of information.

Work was progressing to review the content of the Quarterly Finance Digest for the third quarter of 2017/18 and the following was being suggested:

- a move to a more narrative report – taking the variance analysis from the tables to a narrative report.
- The narrative report would give an overview of the financial position and provide additional narrative on exceptional areas only by portfolio

- An organisation overview would be produced with a report on costs and income, and the net position. The spend would also be split between pay and non-pay costs to give further granularity of detail. This could be at portfolio level.
- subjective level analysis would be available, e.g. spend on areas of interest e.g. agency spend /forecast by Portfolio.
- The report would identify variance to plan and outline actions plan/corrective actions being taken to address emerging issues.
- Additional narrative on cash and treasury.
- Performance against capital budgets
- Some comments had been raised by members re: budget profiling. This would be reviewed when reporting and commented upon as appropriate.
- Aim to produce reports within 6 weeks of end of period

A second option would involve a longer-term project to develop reporting requirements for the Council and Members. Any suggested changes would need to be iterative and the development of reporting processes would need to be discussed with key stakeholders. It would also depend upon system reporting capabilities.

Members were also asked to comment upon the timing and regularity of reporting. As a general guide, monthly reporting was good practice although the Finance Digest was currently produced quarterly. Other issues impacting on reporting included providing enough level of detail so that Members could get the big picture, reporting both reactively and on emerging issues, reporting by exception and highlighting information in a way that helped Councillors understand the impact of the budget variances and on the remedial action that could be taken.

It was suggested that the key measures for financial management should be cash resources, operating results, balance sheets and financial Key Performance Indicators (KPIs). A list of reports that were a useful indicator of financial performance included:

Income and Expenditure (I&E)

- Organisational I&E – Year to date Plan / Actuals/ Variances to plan.
- Organisational I&E - In month performance (plan/actual/variances).
- Organisational Income and Expenditure – Annual budgets/ Forecast outturn/ variances.
- Organisational Month by month expenditure levels (to assess trends).
- Organisational Month by month income levels (to assess trends).
- Information on Budget profiling and impact of budget profiling.
- What are we spending our money on?
    - Subjective level reporting – staff and non-pay
    - Income by type
- Performance against Procurement savings.
- Trend information: Last years outturn as indicator
- Overview of Risk analysis: Key risks and actions being taken to address.
- Overview of Financial Opportunities: Regular review financial opportunities.

Balance sheet reporting/ Financial reporting to include:

- Treasury Management information: levels of cash / rolling cash flow
- Treasury Management: Detail of Investment balances
- Treasury Management: Detail of borrowings
- Use of balances – risk and opportunities
- Balances on Reserves … and likely commitments/ cash outflow over time
- Debt: Aged profiled of debt, monthly changes in bad debt provision

Key Financial Performance Indicators

- Payment information: performance against payment terms
- Key KPIs in relation to finance, including e.g. creditor and debtor invoices.
- Other "performance" indicators might also be identified in relation e.g. to Customer activities.

Currently, the Quarterly Digest did not make direct references to non-financial data to support the review of the financial position although some progress had been made in producing integrated performance reports through the "Business Intelligence Project".

The Business Intelligence Project was responsible for development of integrated performance management information, providing metrics to help the senior management team monitor overall performance. A Dashboard was also being developed.

Member considered all of the information and their requirements regarding future reporting and commented:-

(i) that different Members would require different levels of information. However, it would be helpful to provide some narrative with reporting.

(ii) that they would like information to be reported monthly (with key messages), and then summarised quarterly for the Committee. It would also be helpful for reporting cycles to coincide with Committee meetings.

(iii) that they were open to experimenting with levels of information provided, but would like the following to be considered:-

- report by Department, rather than I&E information, on planned, actual and variances against budget (for both last year and this year), including a brief narrative on exceptions and on the remedial action being taken in relation to variances. This should also include highlighting significant differences for Members.
- Summary Dashboard, with both financial and non-financial (KPI) information, and including direction of travel information and using a traffic light (RAG) rating system. This would primarily be a summary of major information supported by some narrative.
- Members having access to a financial reporting system so they were able to 'drill down' and analyse spend on areas of interest.
- information on end of year variances and re-charges.
- Reserves – to be clear whether they were committed or non-committed (with a very brief narrative).
- more financial and non-financial information to be provided on Connected Knowledge programme, particularly due to the size of investment in the programme and its importance in delivering a sustainable infrastructure for the Council that will support the delivery of further efficiencies.
- automating systems so that financial information could be easily produced for Members and senior Officers.

(iv) that, if the Council established any more companies, it should be explicit in their Articles of Association that the accounts would be available and able to be viewed through the Council's financial systems.

In summary, Members were in agreement with the options proposed to update financial reporting for the future. The Committee also recognised that any changes to the reporting would be iterative and the development of reporting processes would be dependent on system reporting capability.

RESOLVED –

That Officers be requested to take into account the discussions and comments made at the meeting, wherever possible, in reviewing the format and financial / performance information reported to the Committee.

4. WORK PROGRAMME

The Committee considered the work programme for the period up until October 2018.

RESOLVED –

The future work programme be agreed as follows:-

(i) 4 April 2018 – Contract Management / Procurement Update, Quarterly Finance Digest.

(ii) 9 July 2018 – Leisure Centres Management Contract, Quarterly Finance Digest.

(iii) 15 October 2018 – No items as yet.

To be timetabled: Budget Monitoring (challenge new areas of savings), Connected Knowledge programme update.