

Agenda

REGULATORY AND AUDIT COMMITTEE

Date: Tuesday 21 May 2019
Time: 8.30 am
Venue: Mezzanine Room 1, County Hall, Aylesbury

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Agenda Item	Time	Page No
1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP	08:30	
2 MINUTES Minutes of the meeting held on 04 April 2019 to be confirmed as an accurate record and signed by the Chairman.		5 - 12
3 DECLARATIONS OF INTEREST To disclose any Personal or Disclosable Pecuniary Interests		

4	DRAFT STATEMENT OF ACCOUNTS 2018/19 To be presented by Mr R Ambrose, Director of Finance & Procurement and Ms R Martinig, Accountant	08:40	To Follow
5	DRAFT STATEMENT OF ACCOUNTS FOR THE PENSION FUND 2018/19 To be presented by Mr R Ambrose, Director of Finance & Procurement and Ms J Edwards, Pensions & Investments Manager	09:05	To Follow
6	DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19 To be presented by Ms M Gibb, Head of Business Assurance	09:30	To Follow
7	TREASURY MANAGEMENT ANNUAL REPORT 2018/19 To be presented by Ms J Edwards, Pensions & Investments Manager	09:55	13 - 26
8	FORWARD PLAN Standing item for review	10:20	27 - 28
9	DATE AND TIME OF NEXT MEETING 30 July 2019, 8:30, Mezzanine Room 1	10:30	
10	EXCLUSION OF THE PRESS AND PUBLIC To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)		
11	CONFIDENTIAL MINUTES Confidential minutes of the meeting held on 04 April 2019 to be confirmed as an accurate record and signed by the Chairman.		29 - 30

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For further information please contact: Alice Williams on 01296 383042, email: alicwilliams@buckscc.gov.uk

Members

Mr R Bagge
Mr W Bendyshe-Brown
Mr T Butcher (VC)
Mr D Dhillon

Mr S Lambert
Mr D Martin (C)
Mr P Martin
Mr D Watson

Minutes

REGULATORY AND AUDIT COMMITTEE

MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON THURSDAY 4 APRIL 2019 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 9.02 AM AND CONCLUDING AT 11.32 AM.

MEMBERS PRESENT

Mr D Martin (Chairman)
Mr D Dhillon
Mr T Butcher (Vice-Chairman)
Mr D Watson
Mr R Bagge
Mr W Bendyshe-Brown
Mr S Lambert

OTHERS IN ATTENDANCE

Ms M Gibb, Head of Business Assurance
Mr J Hollis, Head of Legal and Compliance, Buckinghamshire County Council
Mr S Turner, Grant Thornton
M Frost, Buckinghamshire County Council
Mr T Ball, Grant Thornton
Mr A Rush, Interim Deputy Director of Finance
Ms A Williams, Committee Assistant
Mr I Murray, Manager - Assurance, Grant Thornton Auditors
Ms H Siegieda, Bucks County Council

1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Ms S Ashmead and Mr R Ambrose.

2 DECLARATIONS OF INTEREST

There were none.

3 MINUTES

The actions from the previous meeting were reviewed and the following points were highlighted:



- It was recommended that the Committee approved the updated whistleblowing policy. This had been approved.
- The anti-fraud corruption policy and anti-money laundering policy would continue to be reviewed and would be presented to the Committee later in the year.
- An update on the annual governance statement action plan would be given at the meeting.
- There would be changes to the way reports were presented on mandatory training and compliance and business continuity management.

RESOLVED: The minutes of the meeting held on 21 November 2019 were AGREED as an accurate record and signed by the Chairman.

4 2019/20 DRAFT BUSINESS ASSURANCE STRATEGY

Ms M Gibb, Head of Business Assurance, BCC presented a verbal summary of the report and highlighted the following points:

- The strategy had been brought to the Committee earlier than planned in order to progress with quarter one activity.
- In line with accounts and audit regulations, an annual report on the systems of internal control would be produced and presented to the Committee in July 2019.
- A consultation on audit planning had taken place. This had been considered at the Audit Board (chaired by the Section 151 Officer) and was taken to the Corporate Management Team (CMT) where the proposed audit plan was agreed.
- A unitary training programme was in development and had been agreed by the district councils and the Chief Executives Implementation Group. The purpose of this would be to identify risks relating to specific work streams.
- The plans for risk management and audit activity throughout 2019/20 would have to stay fluid due to the formation of the unitary council. The main focus of activity in quarter one would be to examine areas carried forward from last year's audit plan.

The following points were highlighted in response to subsequent questions raised by members of the Committee:

- A training plan would be developed on fraud awareness. This would include general training and tailored training for specific employees. Within the last quarter, training had been delivered to key procurement colleagues. A document had been developed that identified all key risk fraud areas, which would be built into the audit plans for the unitary council.
- Development work was taking place for management audit, risk management, decision making and controls over expenditure to be implemented in the unitary council. The key risk areas had been identified for external auditors to provide assurance. A key requirement for this work would be fast delivery and continual monitoring.

- The Chief Executives Implementation Group had sanctioned 50 days of unitary activity, although there was flexibility in this. The level of budget for audit activity had been agreed and would be supported by Ms Gibb's team. The team would review the effectiveness of the work produced by the boards and workstream leads. The deadline would need to be reviewed constantly.
- There were currently sufficient resources to deliver the unitary plan, but this did not include any unplanned demands such as whistleblowing. A number of audits had to be deferred on the forward plan from the previous year due to unplanned demands.
- In response to concerns that risks could be missed in the lead up to unitary, it was decided that a quarterly update would be provided to the Committee to give information on the progress of the strategy.

RESOLVED: Members of the Committee AGREED that quarterly reports would continue, but should trends raise concerns then additional updates would be provided.

- Additional internal audit resources could be procured through The Apex Framework. Buckinghamshire County Council (BCC) had a contract with them to request additional days and resources. Additional funding for this work would have to be approved by the Section 151 Officer if it exceeded the budget.

RESOLVED: Members of the Committee AGREED to approve the report.

5 ANNUAL GOVERNANCE STATEMENT

Ms Gibb, Head of Business Assurance, BCC presented a verbal summary of the report and highlighted the following points:

- Three weaknesses were identified in the 2017/18 report and had been reviewed by the Risk Management Group (RMG). The actions identified had been taken forward:
- Contract Management - The Supplier Relationship Manager had attended a RMG in December to provide an update. The work was ongoing but continued to progress in the right direction. A further update would be provided at the RMG in June 2019.
- Technology Services- Cabinet had approved the new "Smarter Bucks" strategy and this was in the process of being implemented.
- Children's Services - An update had been given to the RMG in March 2019. The progress made so far was positive.
- The 2018/19 Annual Governance Statement would be brought to the Committee in May 2019.

In response to a Member's question on the progress of the Technology Services Improvement Programme, Ms Gibb agreed to secure an update and include it in the next Annual Governance Statement report.

ACTION: Ms Gibb

RESOLVED: Members of the Committee NOTED the points presented in the report.

6A GRANT THORNTON AUDIT PLAN

The Chairman welcomed colleagues from Grant Thornton to the meeting. Mr S Turner, Engagement Manager and Mr I Murray, Engagement Lead, Grant Thornton provided a verbal summary of the report which highlighted the following points:

- Staffing changes were highlighted due to a standard rotation process.
- The main two responsibilities of Grant Thornton were to provide Buckinghamshire County Council (BCC) with a true and fair opinion on the financial statements and a value for money conclusion.
- Key areas of significant risk from an audit perspective included revenue recognition and management override of controls.
- Risks associated with evaluation of land and buildings and evaluation of pension fund liabilities were areas of high estimation. None of the areas posed new risks, and would have been examined in previous years. It was highlighted that the areas were consistent with what would ordinarily be examined in a local authority organisation of this scale.
- Work in relation to the external audit was driven by materiality which helped to identify the areas of accounts and plan audit procedures. This would also help to carry out the audit procedures and assess the impact of any errors or findings with the financial statement. 2% of the gross annual statement was used as a bench mark. A number of considerations were taken into account such as performance materiality and trivial threshold.
- There were three considerations taken into account when materiality and triviality were applied. Areas that fell below the threshold of £12 million would not be tested, with some exceptions due to specific reasons. If errors were found below the trivial threshold then they may not be addressed.
- It was highlighted that the process was closely monitored, and that materiality was a useful guidance but could be fluid if required.
- Findings from last year that continued to impact the financial statement would affect where the bench marks were set. The thresholds would be brought down if necessary.
- The majority of income was derived from grants and formula based income. Anything material would be tested by audit procedures.
- The auditing process in quarter 1 would ensure that governance arrangements were followed and there was an appropriate level of scrutiny.
- Part of BCC's role was transparency to residents. There was an increased scrutiny and challenge process under which local government and county councils were operating under.
- Internal audit processes were key in mitigating that risk. BCC were required to provide a statement to Grant Thornton annually which would highlight any "hidden" activity.

- Electors would be given the opportunity to raise questions in terms of the 2018/19 annual statements. The Chairman stated that any suggestions for improving transparency within the organisation would be welcomed.
- Work regarding value for money arrangements involved ongoing conversations with Grant Thornton and BCC management and continual monitoring by the Business Assurance Team.
- Members asked for assurance that considerations had been made for the future of scrutiny with other external auditors with the formation of the unitary organisation. It was highlighted that Mr Murray had previously been involved with advisory work around the formation of different authorities and work was being done to identify the potential issues.

Following the report, the following points were highlighted and discussed in response to questions raised by Members of the Committee:

- There were four significant risks around Children's Services and Communities, Health and Adult Social Care (CHASC) due to the fluid nature of both programmes. Could assurance be given that the programmes were value for money and it could be audited? It was highlighted that the arrangements would be analysed to decide if the programmes were delivering against milestones and gaining value for money as opposed to the service itself.
- The appointment of external auditors for the new unitary authority would be made by Public Sector Audit Appointments. Mr R Ambrose, Director of Finance & Procurement, BCC had been involved in conversations to establish time frames for this. The recommendation for the process would be brought to the Committee at the earliest possible opportunity. Mr A Rush, Interim Deputy Director of Finance, BCC would provide updates on the process.

ACTION: Mr Rush

RESOLVED: Members of the Committee NOTED the points presented in the report.

6B GRANT THORNTON PENSION FUND AUDIT PLAN

Dr T Ball, Audit Manager, Grant Thornton presented a verbal summary of the report and highlighted the following points:

- Significant risks reflected the professional standard risks. Evaluation of level 3 investments - investments that had no direct publicly available comparators - related to pension fund investments in Private Equity instruments.
- It was highlighted that there was a lack of transparency around level 3 investments. The Chairman pointed out these investments totalled 4% of the £3 billion pension fund, which made it a high performing small percentage.

- Grant Thornton was satisfied with the level of oversight from BCC through the Pension Fund Board and Pension Fund Committee, as audits were efficiently and appropriately considered.
- Grant Thornton would provide feedback on the performance of the Committee during their annual private session held in July. The Chairman requested this feedback would be based on CIPFA standards and guidelines for effective Audit Committees. This feedback would be prepared for the next private session in July 2019.

ACTION: Dr Ball

RESOLVED: Members of the Committee NOTED the points presented in the report.

7 RISK MANAGEMENT GROUP UPDATE

Ms Gibb, Head of Business Assurance, BCC presented a verbal summary of the report and highlighted the following points:

- The report summarised the key items raised from the previous three Risk Management Group (RMG) meetings.

October meeting:

- Debt Management - Children's Services and Communities, Health and Adult Social Care (CHASC.) A further update on this would be provided at the end of the month. The long term debt from CHASC had reduced and short term debt was not considered high risk. The Children's Services debt was under constant review.

December meeting:

- Resources - A thorough review had been given and staffing updates had been provided due to a number of new directors in post. Resources would be providing another update to RMG later in the year.
- Technology Services Risk Register- An in-depth review of the risk register had taken place and it had been updated in line with the improvement plan.
- Transport Economy and Environment (TEE.) - This was updated on a regular basis with the risks escalated by the management team.
- The first implementation risk register for unitary would now be a standing item on all RMG agendas.

February meeting:

- An anti-fraud briefing was provided by Mr Dave Verma, Anti-Fraud Specialist.
- It was highlighted that a fraud log is shared with Grant Thornton.
- Six RMG meetings were held per year. All Members of the Regulatory and Audit Committee were also members of RMG encouraged to attend all meetings.

RESOLVED: Members of the Committee NOTED the points presented in the report.

8 REGULATION OF INVESTIGATORY POWERS ACT (RIPA) UPDATE

Mr J Hollis, Head of Legal and Compliance, BCC presented a verbal summary of the report and highlighted the following points:

- RIPA covered the use of covert surveillance used to support investigations. An inspection by The Investigatory Powers Commissioners Office (IPCO) had taken place in January 2019, following which the Inspector confirmed he was satisfied that the Council had appropriate procedures and policies in place. The Inspector did however recommend some minor amendments to the Council's RIPA policy, which were presented to the Committee for approval.
- The Committee was also presented with an annual report on RIPA activity, which showed the use of RIPA had been consistently low, having only been used once in the last year.
- All applications for surveillance activity required a magistrate's approval.

Following the report, the following points were discussed in response to questions from Members of the Committee:

- There had been no applications for surveillance activity that were not authorised by a magistrate and a log was kept of all applications made
- Mr Hollis was satisfied that Trading Standards officers provided under a shared service arrangement with Surrey County Council were adequately trained to deliver services on BCC's behalf.

RESOLVED: Members of the Committee NOTED the points presented in the report and AGREED to approve the draft policy included in the report.

9 COMPLIMENTS AND COMPLAINTS

Mr Hollis, Head of Legal and Compliance and Ms K Mitchelmore, Corporate Complaints Manager, BCC presented a verbal summary of the report and highlighted the following points:

- The Committee was asked to consider the adoption of a consolidated procedure for dealing with corporate complaints. There were no major changes proposed, and the draft merely collated and updated the current procedure.
- The procedure followed guidelines from the Ombudsman. The timeline for processing and resolving complaints was set at 20 working days, with a soft target of 10 working days.
- Details of some complaints that fell outside the remit of Buckinghamshire County Council's (BCC) procedure, such as Ombudsman complaints, were not included in the report.
- Customers needed to be made aware of the external options they had for complaints that fell outside the procedure, and these details were signposted within the document.

- The new procedure enabled members of the public to provide general feedback as well as complaints.
- Quarterly reports were provided. An annual report would be presented to the Committee in September 2019.

RESOLVED: Members of the Committee NOTED the points presented in the report and AGREED to approve the new feedback, compliments and complaints procedure.

10 DATE AND TIME OF NEXT MEETING

21 May 2019, Mezz 1, 08:30.

11 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED: That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

12 BUSINESS ASSURANCE STRATEGY UPDATE

CHAIRMAN

Regulatory and Audit Committee

Title:	Treasury Management Annual Report 2018/19
Date:	21 May 2019
Author:	Director of Finance and Procurement
Contact officer:	Pensions & Investments Manager, Julie Edwards 01296 383910
Electoral divisions affected:	n/a

Summary

The Council is required to report to members on the previous year's treasury management activity. It was agreed at County Council that an annual treasury management report, reporting on treasury management activity in the previous financial year would be reported to the Regulatory and Audit Committee prior to submitting the report to County Council for approval.

Recommendation

The Committee are asked to recommend to Council the Treasury Management Annual Report and the actual Prudential Indicators for 2018/19.

A Supporting information

Background

- 1 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management and the Council's Financial Regulations (B5.2), this Council is required to provide the Regulatory and Audit Committee with a report on the previous year's treasury management activity.
- 2 The Code of Practice defines Treasury Management as:
The management of the organisation'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.
- 3 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

Treasury Management Strategy

- 4 The Council approved the 2018/19 treasury management strategy at its meeting on 22 February 2018. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The effective management and control of risk are prime objectives of the Council's treasury management activities. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The Council is a net borrower:

	31 Mar 2018	30 Sept 2018	31 Dec 2018	31 Mar 2019
	£m	£m	£m	£m
Borrowing				
PWLB Borrowing*	-102.1	-150.0	-244.1	-243.5
LOBO Borrowing#	-78.0	-30.0	-30.0	-30.0
Short term Borrowing	-32.0	-45.0	-28.0	-20.0
Accrued Interest	-1.1	-1.0	-2.4	-2.7
Gross Borrowing	-213.2	-226.0	-304.5	-296.2
Treasury Cash				
Money Market Funds	15.3	4.8	37.0	5.5
CCLA Property Fund	5.0	5.0	5.0	5.0
Total Cash	20.3	9.8	42.0	10.5
Net Cash / (Borrowing)	-192.9	-216.2	-262.5	-285.7

*PWLB Public Works Loans Board. The PWLB is a statutory body, part of HM Treasury, its purpose is to lend money to local authorities. The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

#LOBO Lender Option Borrower Option. LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

- 5 The following table summarises interest paid on external debt and interest earned on cash balances:

	2017/18	2018/19
	£m	£m
Interest paid on Loans	7.7	8.6
Interest Income	-0.4	-0.5
Net Interest Cost	7.3	8.1

- 6 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Borrowing Strategy

- 7 The Council's borrowing objectives are:
- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
 - To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
 - To maintain a view on current and possible future interest rate movements and borrow accordingly.
 - To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators. Paragraphs 13 to 15 provide more detail of the Council's borrowing activities in 2018/19.

Investment Performance in 2018/19

- 8 Internal monitoring procedures of the Treasury Management function included:
- The Treasury Management Group which includes the Cabinet Member for Resources, the Deputy Cabinet Member for Resources, the Director of Finance and Procurement and other key officers meets periodically to review the Council's investments, agreed lending list and investment / borrowing strategies.
 - Periodic internal and external audit scrutiny;
 - Proactive management – acting on Arlingclose's (the Council's treasury advisor) advice and liaising with other Council's treasury functions regarding best practice and new initiatives.
- 9 During 2018/19 Buckinghamshire County Council (BCC) invested cash balances not required on a day-to-day basis in instant access money market funds. The total of these investments at any one time varied between £1m and £57m at interest rates between 0.22% and 0.66%. The Director of Finance and Procurement approves and monitors the institution lending list in line with a predetermined set of criteria (approved by County Council as part of the Treasury Management Strategy) and investments were made within the agreed list of lenders and associated lending limits and maturity periods.
- 10 The average rate of return on investments was 1.9%. The interest earned and credited to the Council's revenue account was £467k. The Council maintains minimum cash levels for operational purposes. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
- 11 The principal of sums invested as at 31 March 2019 totalled £10.5m. These investments were placed with 4 institutions in sums of between £25,000 and £5.3m at interest rates of between 0.6% and 4.3%. Of the 4 institutions, 3 are AAA rated money market funds operated by financial institutions and 1 is a UK property fund. Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into a property fund, diversifying investment risk.

Prudential Indicators

- 12 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable. The actual Prudential Indicators for 2018/19 are shown in Appendix 1.

Borrowing in 2018/19

- 13 The Council arranged a combination of PWLB long term loans and short term bank loans to meet its borrowing requirements in 2018/19. Loans outstanding totalled £296.2m at 31 March 2019; £243.5m was from the Public Works Loan Board (PWLB), £30.0m Lenders Option Borrowers Option (LOBOs) from the money markets, £20.0m temporary borrowing from other local authorities and £2.7m accrued interest. The provisional outturn for interest on external borrowing is £8.6m. £2.6m was repaid to the PWLB as part of scheduled instalments and £10m upon maturity of a loan. The Council also pre-paid a £48m Lender Option Borrower Option (LOBO) loan. The Council borrowed £154.0m from the PWLB during 2018/19, locking in debt long term low rates mitigating the risk of interest rates increasing. The PWLB Certainty Rate allows the authority to borrow at a reduction of 20bps on the Standard Rate.
- 14 As reported previously, the Council pre-paid 3 LOBO loans totalling £48m running at 4.28%. The Council had been offered attractive prepayment terms from the bank and decided to proceed following consideration of the risk/benefits of maintaining the current position against a range of alternative restructuring scenarios. The loans were replaced by £48m of PWLB loans with an average interest rate of 2.34%. The eventual prepayment of the £48m totalled £74m. Savings over the next 25 years are projected to be £10.4m. Savings will be reduced should interest rates rise faster than expected. Additionally, the Council has both reduced its exposure to the uncertain refinancing risk represented by the inherent optionality of the LOBO structure and reduced the overall term of the debt portfolio. Consequently, the debt portfolio and borrowing need can now be managed more flexibly. The Council and treasury advisors continue to be aware of the potential to restructure PWLB debt, but there are unlikely to be opportunities in the prevailing interest rate environment.
- 15 In recent years the Council has managed its cashflow requirements through undertaking temporary borrowing. During 2018/19 there were 30 occasions when the Council borrowed temporarily from other local authorities for short term cash flow purposes. The amounts ranged from £3m to £15m at interest rates from 0.40% to 1.0%.

B Resource implications

There are no additional costs associated with the recommendation.

C Legal implications

The publication of annual strategy, a mid year treasury report and an annual strategy conforms to best practice as required by the Code of Practice CIPFA Treasury Management in the Public Services.

D Other implications/issues

There are none.

E Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not applicable.

Background Papers

Treasury Management Strategy Report to County Council 22 February 2018

<https://democracy.buckscc.gov.uk/documents/g9684/Public%20reports%20pack%2022nd-Feb-2018%2009.30%20County%20Council.pdf?T=10>

Treasury Management Annual Report to County Council 26 July 2018

<https://democracy.buckscc.gov.uk/documents/g9687/Public%20reports%20pack%2026th-Jul-2018%2009.30%20County%20Council.pdf?T=10>

Treasury Management Update to County Council 22 November 2018

<https://democracy.buckscc.gov.uk/documents/g9689/Public%20reports%20pack%2022nd-Nov-2018%2009.30%20County%20Council.pdf?T=10>

Appendix 1

PRUDENTIAL INDICATORS FOR 2018/19

1 Background

1.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003 and the Local Authorities (Capital Finance and accounting) Regulations 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

1.2. Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

1.3. The purpose of this report is to report the outturn position for the indicators approved by Council last year for 2018/19. The report describes the purpose of each of the indicators. Monitoring of the Prudential Indicators takes place throughout the year and a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

2 Capital Expenditure Indicators

2.1. Capital Expenditure

This indicator is required to inform the Council of capital spending plans. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

Gross capital expenditure for 2018/19 is summarised below:

Table 2.1 Capital Expenditure

Indicator	Unit	Budget 2018/19	Actual 2018/19	Underspend	
		£000	£000	£000	%
Estimates of capital expenditure	£000	206,574	184,255	- 22,319	-10.8%

The Capital Programme has underspent by £22.3m (10.8%) on the revised capital expenditure budget for the year. Notably there is slippage on:

- Waterside North Development (£1.7m)
- Technology Projects (£3.3m)
- Aylesbury Study Centre (£1.2m)
- Adult Social Care respite currently under review (£3m)
- Children's Social Care purchase of homes (£1.6m)

- Primary and Secondary School Places (£1.8m)
- Abbey View and Green Ridge projects (£1.2m)
- Growth & Strategy Developer Funded Schemes (£1.152m)
- Growth & Strategy LEP funded schemes including South East Aylesbury Link Road (£4.1m) and A4 Sustainable Travel Scheme (£1.8m)

However, within Education & Skills there is offsetting overspend variance due to accelerated spend on St Michael's, Aylesbury (£4.7m) and Primary and Secondary schemes (£2.0m).

Capital Financing Requirement

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 6.3 and 6.4). The end of year Capital Financing Requirement for the Council for 2018/19, net of repayments, is:

Table 2.2 Capital Financing Requirement

Indicator	Unit	Actual 2018/19	Original Approved 2018/19
Estimates of capital financing requirement (CFR)	£000	470,609	401,531

The actual capital financing requirement is higher than the original approved due to Cabinet approvals for borrowing to finance in-year commercial acquisitions.

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council.

As a result of the acquisition of two investment properties the amount that has been required to be borrowed in 2018/19 has increased compared to that anticipated at the time of setting the indicators in February 2018.

3 Affordability Indicators

3.1 Ratio of Financing Costs to Net Revenue Stream

Purpose of the Indicator

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Table 3.1 Ratio of Financing Cost to Net Revenue Stream

Indicator	Unit	Actual 2018/19	Approved 2018/19
Estimates of ratio of financing costs to net revenue stream	%	4.9%	4.8%

There are no significant variations to this indicator since it was agreed by Council in February 2018.

4 Financial Prudence Indicator

4.1. Gross Debt and the Capital Financing Requirement ('CFR')

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Table 4.1 Gross Debt and the CFR

Indicator	Unit	Final Approved Limit 2018/19	Revised Approved Limit 2018/19 22 Nov 18	Approved Limit 2018/19 22 Feb 18
Gross Borrowing	£000	390,000	390,000	330,000
Capital Financing Requirement	£000	470,609	401,531	401,531

The actual external borrowing as at 31 March 2019 was £296.2m which includes £2.7m accrued interest. During 2018/19 £12.6m of PWLB debt was repaid and £106m new borrowing from the PWLB was taken out, £76m for the purchase of two investment properties and £30m to optimise overall cash balances in line with the Council's treasury management strategy. The Council pre-paid a £48m LOBO loan and replaced it with £48m of new PWLB borrowing. Temporary borrowing amounts have ranged from £20m to £45m depending on cash flow requirements. The mix of temporary and fixed rate borrowing continues to be reviewed in line with advice from our Treasury advisors.

Full Council approved in November 2018 an increase from £330m to £390m to enable the Council to further invest in Commercial properties to provide additional revenue income in 2018/19, and also correct an anomaly between the 4.1 and 5.1 indicators approved in February 2018.

5 Treasury and External Debt Indicators

5.1 Authorised Limit for External Debt

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

Table 5.1 Authorised limit for external debt

Indicator	Unit	Final Approved Limit 2018/19	Revised Approved Limit 2018/19 22 Nov 18	Approved Limit 2018/19 22 Feb 18
Authorised limit (for borrowing) *	£000	390,000	390,000	340,000
Authorised limit (for other long term liabilities) *	£000	10,000	10,000	10,000
Authorised limit (for total external debt) *	£000	400,000	400,000	350,000

* These limits can only be changed with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements. The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Director of Finance and Procurement will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit. The Council agreed an increase of £50m to the authorised limit for borrowing in November 2018 to potentially invest further in commercial properties.

5.2 Operational Boundary for External Debt

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Table 5.2 Operational Boundary for External Debt

Indicator	Unit	Final Approved Limit	Revised Approved Limit	Approved Limit 2018/19
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		2018/19	2018/19 22 Nov 18	22 Feb 18
Operational boundary (for borrowing)	£000	360,000	360,000	310,000
Operational boundary (for other long term liabilities)	£000	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	367,500	367,500	317,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice document. It will be reviewed on an on-going basis, the operational boundary allows the Council to borrow up to invest in new assets which will generate an income stream in excess of any borrowing costs. An increase of £50m was approved by Council in November following the £50m increase to the authorised limit for borrowing

5.3 Actual External Debt

This is a factual indicator showing actual external debt for the previous financial year.

The actual external borrowing as at 31 March 2019 was £296.2m which includes £2.7m accrued interest. During 2018/19 £12.6m of PWLB debt was repaid and £106m new borrowing from the PWLB was taken out, £76m for the purchase of two investment properties and £30m to optimise overall cash balances in line with the Council's treasury management strategy. The Council pre-paid a £48m LOBO loan and replaced it with £48m of new PWLB borrowing. Temporary borrowing amounts have ranged from £20m to £45m depending on cash flow requirements. The mix of temporary and fixed rate borrowing continues to be reviewed in line with advice from our Treasury advisors.

6 Treasury Management Indicators

The prudential code links with the existing CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicators consist of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

6.1 Security Average Credit Rating

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

Table 6.1 Security Average Credit Rating

Security Average Credit Rating	Actual 2018/19	Approved 2018/19
Portfolio Average Credit Rating	A+	A+ or above

For the purpose of this indicator, local authorities which are unrated are assumed to hold an AA rating.

6.2 Has the Council adopted the CIPFA Treasury Management Code?

The Council has adopted the Code. In line with the Code the Treasury Strategy is reported to Regulatory and Audit Committee and Council.

Table 6.2 The CIPFA Treasury Management Code

Indicator	Unit	Actual 2018/19	Approved 2018/19
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes

6.3 Upper Limit of Fixed Rate Borrowing

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

Table 6.3 Upper Limit of Fixed Rate Borrowing

Indicator	Unit	Final Approved Limit 2018/19	Revised Approved Limit 2018/19 22 Nov 18	Approved Limit 2018/19 22 Feb 18
Fixed interest rate exposure - upper limit *	£000	390,000	390,000	340,000

* Any breach of these limits will be reported to the full Council

An increase of £50m was approved by Council in November following the £50m increase to the authorised limit for borrowing.

6.4 Upper Limit of Variable Rate Borrowing

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount will be:

Table 6.4 Upper Limit of Variable Rate Borrowing

Indicator	Unit	Final Approved Limit 2018/19	Approved Limit 2018/19 22 Feb 18
Variable interest rate exposure - upper limit *	£000	160,000	160,000

* Any breach of these limits will be reported to the full Council

Arlingclose, the Council’s treasury advisor, advised that with short-term interest rates much lower than long-term rates, it was likely to be more cost effective in the short-term to borrow short-term loans instead of long-term loans. Instruments that mature during the year are classed as variable.

6.5 Maturity Structure of Fixed Rate Borrowing

This Indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of the fixed borrowing will be:

Table 6.5.1 Maturity Structure of Fixed Rate Borrowing

Maturity Structure of Fixed Rate Borrowing	Limit 2018/19		Approved Limit 2018/19	
	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	40%	0%	40%	0%
12 months and within 24 months	50%	0%	50%	0%
24 months and within 5 years	50%	0%	50%	0%
5 years and within 10 years	75%	0%	75%	0%
10 years and above	100%	20%	100%	20%

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.6 Total Principal Sums Invested for Periods Longer than 364 Days

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 6.6 Total Principal Sums Invested for Periods Longer than 364 Days

Indicator	Unit	Actual 31 March 2019	Approved Limit 2018/19
Total principal sums invested for periods longer than 364 days	£m	£0m	£20m

Cash balances are anticipated to continue to be low.

7 Conclusion

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.

Regulatory & Audit Committee Forward Plan – Forward Plan 2019

Date of meeting	Items ^ = to OCB	Report Writer
30 January 19	CANCELLED MEETING.	
4 April 19	1. 2019/20 Draft Business Assurance Strategy 2. Annual Governance Statement 3.A. Grant Thornton Audit Plan 3.B Grant Thornton Pension Fund Audit Plan 4. Risk Management Group Update 5. RIPA Update 6. Compliments and Complaints Private 7. Business Assurance Strategy Update	1. Maggie Gibb 2. Maggie Gibb 3.A Grant Thornton 3.B Grant Thornton 4. Maggie Gibb 5. Jamie Hollis 6. Jamie Hollis 7. Maggie Gibb
Private Papers	Fraud Update (via Statutory Officers Group)	
21 May 19	1. Draft Statement of Accounts 2. Draft Pension Accounts 3. Draft Annual Governance Statement 4. Treasury Management Annual Report	1. Richard Ambrose 2. Richard Ambrose 3. Maggie Gibb 4. Julie Edwards
Private Papers		

Regulatory & Audit Committee Forward Plan – Forward Plan 2019

30 July 19	<ol style="list-style-type: none"> 1. Private Session with External Auditors 2. Private Session with internal Auditor 3. Statement of Accounts 4. Pension Fund Accounts 5. Value For Money Statement 6. Annual Governance Statement 7. Head of Audit Annual Opinion 8. Standing Order Exemptions and Breaches 9. Compliments and Complaints Annual Report? <p>Private 10. 2019/20 Business Assurance Strategy</p>	<ol style="list-style-type: none"> 3. Richard Ambrose 4. Richard Ambrose 5. Grant Thornton 6. Maggie Gibb 7. Maggie Gibb 8. Maggie Gibb 9. Jamie Hollis <p>10. Maggie Gibb</p>
Private Papers		

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Deferred Items

Review of Constitution	Claire Hawkes
Petitions Review	Claire Hawkes
Whistleblowing Policy	Maggie Gibb
Anti-Fraud and Corruption Policy	Maggie Gibb
Anti-Money Laundering Policy	Maggie Gibb

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

