

## **GOVERNANCE COMMITTEE**

WEDNESDAY, 22ND JUNE 2016, 2.30 PM  
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

<b>Agenda No</b>	<b>Item</b>	
4	<b>TREASURY MANAGEMENT ANNUAL REPORT 2015/16 - CHORLEY</b> Report of the Chief Finance Officer (enclosed)	(Pages 3 - 8)
12	<b>GOVERNANCE COMMITTEE SKILLS AND KNOWLEDGE REPORT</b> Report of the Chief Executive (to follow)	(Pages 9 - 14)

GARY HALL  
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Governance Committee

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Report of	Meeting	Date
Chief Finance Officer	Governance Committee	23 June 2016

## TREASURY MANAGEMENT ANNUAL REPORT 2015/16

### PURPOSE OF REPORT

- To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2016.

### RECOMMENDATION(S)

- That the report be noted.

### EXECUTIVE SUMMARY OF REPORT

- This report advises on compliance with Prudential and Treasury Indicators in 2015/16. The return on investments for the year was 0.44%, which exceeded the benchmark of 0.396%. Details of borrowing and investments as at 31 March 2016 are presented.

Confidential report Please bold as appropriate	Yes	No

### CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

### BACKGROUND

- The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable that, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year (Council 3 March 2015), a mid-year review of that strategy (Governance Committee 23/9/2015), and finally this out-turn report.
- Revised Prudential and Treasury Indicators for 2015/16 were included in the report "Treasury Strategies and Prudential Indicators 2016/17 to 2018/19", presented to Special Council of 1 March 2016. Where relevant, comparisons with 2015/16 indicators in this report are to those approved most recently.

**PRUDENTIAL INDICATORS**7. Prudential Indicator: Capital Expenditure and Financing 2015/16

The Council's 2015/16 Capital Programme has been reported to Executive Cabinet and Council at intervals during the year. An analysis of capital expenditure in the year and variances from budgets, including rephasing of expenditure to 2016/17, is given in the report "Provisional Revenue and Capital Outturn 2015/16", being presented to the Executive Cabinet meeting of 30 June 2016.

In summary, capital expenditure for 2015/16 (including Revenue Expenditure Funded from Capital Under Statute) was £4.019m, compared to the estimate of £5.208m when the prudential indicator for the year was revised. Financing of capital expenditure in 2015/16, and the impact on the Capital Financing Requirement, is shown in the table below.

8. Prudential Indicator: Capital Financing Requirement 2015/16

The Capital Financing Requirement is a measure of the capital expenditure incurred by the Council which still has to be paid for. Financing of such expenditure is by a combination of external borrowing, generally loans from the Public Works Loan Board (PWLb), or temporary use of internal cash balances. Ultimately the expenditure has to be paid for and will be a charge to Council Tax payers. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year is based on the CFR. Its impact on reducing the CFR is shown in the following table.

The revised CFR estimated for 2015/16 was £34.885m; therefore the actual CFR is £0.388m less than estimated.

<b>Capital Expenditure and Financing</b>	<b>2015/16 £'000</b>
Opening Capital Financing Requirement	33,200
Capital investment	
Property, Plant and Equipment (Note 12)	2,232
Heritage Assets (Note 13)	99
Revenue Expenditure Funded from Capital under Statute (Note 7)	1,688
Sources of finance	
Capital Receipts (Note 23b)	(185)
Government Grants and Other Contributions (Note 23b)	(1,125)
Sums set aside from revenue	
Revenue Financing (Note 23b)	(874)
Minimum Revenue Provision – statutory (Note 23b)	(490)
Capital receipts applied to reduce Capital Financing Requirement	(48)
<b>Closing Capital Financing Requirement</b>	<b>34,497</b>
Explanation of movements in year	
Increase in prudential borrowing	1,835
Provision made for debt repayment	(538)
<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>1,297</b>

### Prudential Indicator: The CFR and Borrowing

In order to ensure that local authorities borrow only for capital purposes, the Prudential Code requires that borrowing net of investments should not exceed the CFR for the preceding year plus any anticipated increase in the current and the next two years.

Total borrowing at 31 March 2016 was £14.300m (excluding accrued interest), £12.800m of which was from PWLB, and £1.500m was a temporary loan from another local authority. Cash balances (net of bank overdraft) invested at year-end were £0.822m, which meant that borrowing net of investments was £13.478m. This was lower than the estimated net figure of £15.022m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not taken. The net borrowing figure is £20.019m less than the Capital Financing Requirement quoted above, this figure representing the use of the Council's own cash to finance capital expenditure rather than taking additional external loans.

When the treasury strategy for 2015/16 was approved, it was anticipated that the interest rate for a 25-year PWLB loan would rise to 3.90% by the March quarter of 2016, and that the rate would continue to rise to 4.70% by the March quarter of 2018. Based on the expected interest rate rise, estimated borrowing for the year assumed that new external loans would be taken to replace use of internal cash before rates were increased. This would have a 'carrying cost' in the short-term, because interest payable would exceed interest earned on the additional cash balance available to invest, but it would have achieved savings in the longer term by borrowing before rates increased. In practice, the likelihood of an immediate increase in rates diminished during 2015/16, and use of internal cash balances rather than new external loans continued. On 31 March 2016 the 25-year PWLB rate was 3.11% and there was no immediate prospect of a sharp increase. Rates will continue to be monitored, and bearing in mind the Council's capital investment plans it is likely that additional external borrowing will be required during 2016/17 as reflected in the current Treasury Strategy.

#### 9. Compliance with Borrowing Limits (Operational Boundary & Authorised Limit)

The Prudential Indicators include two borrowing limits: the Operational Boundary, which reflects the expected borrowing position; and the Authorised Limit, which provided headroom to cater for unanticipated cash movements.

The revised Operational Boundary for 2015/16 was set at £20.037m, which included £20.022m external borrowing plus £0.015m other long-term liabilities. The actual total for the year was £14.315m (excluding accrued interest, but including other long-term liabilities), and the reason for the reduction was the continuing use of internal cash balances rather than external borrowing to finance capital expenditure. The prudential borrowing for the year of £1.835m was financed from internal balances. Use of internal cash balances in this way reduces the net cost of financing capital investment for the time being, though in the longer run additional external borrowing will be required.

The revised Authorised Limit was set at £23.037m, to allow a margin for temporary borrowing if required for cash management purposes. Actual borrowing and other long-term liabilities were £14.315m and therefore were below the limit.

#### 10. Prudential Indicator: Ratio of Financing Costs to the Revenue Stream

This indicator identifies the percentage of the Council's income from Government grants and Council Tax that has been used to meet interest costs and debt repayment (MRP). The estimate reported in the Treasury Strategy 2015/16 was 7.33%. The actual ratio was 5.90%. In calculating the actual ratio, a number of income and expenditure items have been excluded. One-off Government grants such as those relating to the December 2015 floods

have been excluded, because they were not anticipated in the original estimate and therefore would have distorted the comparison. Similarly interest received other than interest earned on cash balances invested has been excluded because it was not in the estimated ratio. By excluding these non-recurring items, it is easier to focus on the reasons for the reduction in the ratio.

The revenue stream increased but mainly as a result of a reduction in the business rates levy payable to the Government. This was because growth in business rates income was less than estimated. Financing costs were lower than estimated because the carrying cost of taking new loans to replace internal borrowing was avoided. Interest receivable was less than estimated, but interest payable was reduced by a larger value.

11. Prudential Indicator: Incremental Impact of Capital Investment Decisions

This indicator is concerned with the cumulative impact on the revenue budget of capital expenditure over a number of years. It is not possible to give a meaningful comparison against this indicator, other than when it is restated each year in the Treasury Strategy.

Treasury Position as at 31 March 2016

	As last reported (in 2016/17 Treasury Strategy) £'000	Actual value as at 31 March 2016 £'000
Borrowing at period start (excluding temporary borrowing for cash flow management)	19,042	19,042
Borrowing repaid in year	(6,242)	(6,242)
Borrowing in year	7,222	1,500
<b>Total borrowing at period end **</b>	<b>20,022</b>	<b>14,300</b>
** Excluding accrued interest		
<b>Cash &amp; investments</b>	<b>(5,000)</b>	<b>(822)</b>
<b>Net Borrowing</b>	<b>15,022</b>	<b>13,478</b>

Note: £1.5m borrowing was short-term for cash management purposes

12. Treasury Indicator: Upper Limit on Fixed Interest Rate Exposure

The Council is exposed to fixed interest rates on its borrowings. The upper limit on fixed interest rate exposure for 2015/16 was set at 100%, and is equivalent to the Operational Boundary. The limit was not breached.

13. Treasury Indicator: Upper Limit on Variable Interest Rate Exposure

The Council is exposed to variable interest rates on cash invested temporarily in money market funds and call accounts. The table below shows that on average £5.756m was invested each day in such funds. The upper limit on variable rate exposure for 2015/16 was set at £17m. This upper limit took account of the potential need for external borrowing to finance capital investment to replace use of internal cash balances. The effect would have been to increase cash available for investment, though at a much lower rate of interest than

would have been paid on the new loans. As a consequence, no new loans were taken in 2015/16 and cash invested peaked at £12m.

14. Investments and Average Rate Achieved

The following table summarises investment activity and returns during 2015/16:

Details	Average Daily Investment £'000	Interest Earned £	Average Rate %
Money Market Funds	830	3,650	0.44
Call accounts	3,923	14,908	0.39
<b>Sub Total – MMF/Call accounts</b>	<b>4,753</b>	<b>18,558</b>	
Short Term deposits	1,003	7,019	0.70
Debt Management Office (DMO)	0	0	n/a
<b>Total</b>	<b>5,756</b>	<b>25,577</b>	<b>0.44</b>

The average interest earned of 0.44% exceeded the performance benchmark of 0.396%, being the 7-day London Inter-Bank Bid Rate (LIBID). The use of the DMO was avoided, because the rate of interest earned is only 0.25%, it was not possible to place cash balances regularly in term deposits, which pay higher interest rates than call accounts and money market funds.

The average rate achieved in 2015/16 has reduced compared to 2014/15, when 0.59% was achieved and the 7-day LIBID was 0.35%. The likelihood is that the average rate achieved in 2016/17 will remain low, which tends to support the strategy of using internal cash balances where possible in order to minimise additional borrowing required to finance capital investment.

**IMPLICATIONS OF REPORT**

15. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

16. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's draft financial accounts for the financial year 2015/16.

**COMMENTS OF THE MONITORING OFFICER**

17. The Monitoring Officer has no comments.

GARY HALL  
 CHIEF EXECUTIVE & STATUTORY FINANCE OFFICER

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Treasury Strategy 2015/16 Treasury Strategy 2016/17	03/3/15 01/3/16		Town Hall

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Michael Jackson	5490	10 June 2016	Treasury Management Annual Report 2015-16.docx





Report of	Meeting	Date
Chief Executive	Governance Committee	22 June 2016

## GOVERNANCE COMMITTEE SKILLS AND KNOWLEDGE REPORT

### PURPOSE OF REPORT

- To inform the Committee of the results of the Skills and Knowledge Questionnaire that had recently been undertaken with members of the Committee

### RECOMMENDATION(S)

- Members are asked to discuss paragraphs 10 and 11 and propose alternative ways to deliver a more effective training programme for members of Governance Committee.

### EXECUTIVE SUMMARY OF REPORT

- In 2015/16, all Members and officers of the Governance Committee undertook a questionnaire on Governance skills and knowledge to identify what level of understanding the membership was perceived to have. The questionnaire was completed individually and was a self-assessment approach.

Confidential report Please bold as appropriate	Yes	No

### CORPORATE PRIORITIES

- This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	√

### BACKGROUND

- The Governance Committee is made up of Elected Members that are independent of the Executive and Scrutiny functions, Statutory Officers that included the Head of Paid Service/Section 151 Officer, Heads of Shared Finance and Assurance, the Council's Monitoring Officer and External Auditors.
- Recent communication via The Audit Committees – Practical Guidance for Local Authorities and Police contained a recommendation for Governance Committees to undertake an evaluation of its members skills and knowledge set and this course of action was supported by the authority.

7. The role of the Governance Committee is quite specialised, and Members who have received appropriate training should be able to ascertain:
  - If Internal Audit is adequate
  - that all the audit plans are appropriately focused
  - that responses to audit recommendations are satisfactory
  - that appropriate action is taken if things go wrong and
  - that there are comprehensive and robust processes for risk management and production of the Annual Governance Statement.

**RESULTS AND EVALUATION**

8. When evaluating the results of the questionnaire, shown at Appendix 1, reveal that Members feel their level of understanding gained by current training methods isn't sufficient enough for them to fulfil their role on Governance Committee effectively and that their overall level of understanding of the Committee's roles and functions could be improved upon.
9. Historically, training for members in this area has been delivered by in-house methods by Council officers at the start of the committee year, with particular attention being given to newer councillors who may be sitting on Committee for the first time. However, in response to the questionnaire results, the Committee may wish to consider alternative delivery methods for training, for example:
  - Employing a specialised external provider
  - Completing online training modules
  - Attending a short training session prior to the actual Committee, that would focus on the main items of business to be discussed on the agenda for that meeting
  - Schedule a programme of suitable sessions throughout the year that would be delivered internally by Council officers and opened up to other Members.
10. One of the main difficulties that Members may also wish to give consideration to is that the membership frequently changes in line with Council elections and political group appointments, constant membership changes, against a backdrop of the Committee only meeting four times a year, can make consistency of knowledge levels difficult to maintain.

**WORK OF THE COMMITTEE**

11. The work of the Governance Committee meets four times a year and covers three main areas relating to the **Role of Governance Committee and Auditors**, including its governance, risk management and internal control arrangements, **Code of Conduct** and **Financial Matters**, including the Statement of Accounts (SOA) and Treasury Management (TM). It was also recently recommended by the Member Support Working Group that any new member appointed to Governance Committee should undertake an overview of the above before attending any of the meetings. This year, the two newly appointed members are undertaking such training on 13 June.

**IMPLICATIONS OF REPORT**

12. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

**COMMENTS OF THE STATUTORY FINANCE OFFICER**

13. No comments.

**COMMENTS OF THE MONITORING OFFICER**

14. The training is for the benefit of members and it is appropriate to ensure it is presented in a way that is accessible to them. The best way to ensure this is to seek feedback from the members to be trained. The first step was to use the surveys from the last training as a basis for this discussion. It would be inappropriate to tailor individual training so ideally the discussion will produce agreement by consensus on the best approach to training for the committee.

GARY HALL  
CHIEF EXECUTIVE

There are no background papers to this report.

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
Dianne Scambler	5034	8 June 2016	***

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**GOVERNANCE COMMITTEE SKILLS AND KNOWLEDGE QUESTIONNAIRE RESPONSES**

Questions	Member's Responses								Totals
	1	2	3	4	5	6	7	8	
Members have an overview of the governance structures of the authority and decision making process. Members have knowledge of the organisational objectives and major functions of the authority.	3	4	3	2	3	2	2	3	3
Members have an understanding of the committee's role and place within the governance structures. Members are familiar with the committee's terms of reference and accountability arrangements. Members have knowledge of the purpose and role of the Governance Committee.	3	3	1	2	3	2	2	3	4
Members have knowledge of the six principles of the CIPFA/Solace Good Governance Framework and the requirements of the Annual Governance Statement (AGS). Members have knowledge of the local code of governance.	2	4	1	2	2	2	2	N/A	6
Members are aware of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note. Members have knowledge of the arrangements for the delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.	3	3	3	3	2	2	2	N/A	3
Members have an awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. Members have an understanding of good financial management principles and knowledge of how the organisation meets the requirements of the role of the Chief Financial Officer, as required by the CIPFA Statement on the Role of the Chief Financial officer in Local Government.	2	3	1	2	3	2	2	2	6
Members have knowledge of the role and functions of the external auditor and who currently undertakes this role. Members have knowledge of the key reports and assurances that external audit will provide. Members know about the arrangements for the appointment of auditors and quality monitoring undertaken.	2	4	2	2	2	2	2	2	7
Members have an understanding of the principles of risk management, including linkage to good governance and decision making. Members have knowledge of the risk management policy and strategy of the organisation. Members have an understanding of risk governance arrangements, including the role of members and the Governance Committee.	2	4	2	3	3	2	2	2	5

**GOVERNANCE COMMITTEE SKILLS AND KNOWLEDGE QUESTIONNAIRE RESPONSES**

Members have an understanding of the main areas of fraud risk the organisation is exposed to. Members have knowledge of the principles of good fraud risk management practice and knowledge of the organisation's arrangements for tackling fraud.	2	3	1	2	3	2	2	2	6
Members have knowledge of the seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff and knowledge of the whistleblowing arrangements in the authority.	2	3	1	2	2	2	2	2	7
Members are aware of the assessment tool for reviewing the arrangements "Effective Scrutiny of Treasury Management" The key areas of knowledge are: regulatory requirements; treasury risks; the organisation's treasury management strategy; the organisation's policies and procedures in relation to treasury management.	2	1	3	2	2	1	2	2	7
Members are able to focus on material issues and overall position rather than being side tracked by detail.	3	1	3	2	3	1	2	2	5
Members are able to frame questions that draw relevant facts and explanations. Members are challenging performance and seeking explanations while avoiding hostility or grandstanding.	2	1	3	3	2	1	2	2	6
Members ensure there is a clear plan of action and allocation of responsibility.	2	3	3	2	2	1	2	2	6
Members are able to understand the practical implications of recommendations to understand how they might work in practice.	2		2	3	3	1	2	2	5
Members support the use of plain English in communications, avoiding jargon and acronyms etc.	3	4	2	3	3	3	2	2	3
Members evaluate information on the basis of evidence presented and avoiding bias or subjectivity	2	4	3	2	2	2	2	2	6

**KEY – ASSESSMENT SCORES**

1	Hardly ever / poor
2	Occasionally / inadequate
3	Most of the time / satisfactory
4	All of the time / good