



AUDIT COMMITTEE

S U P P L E M E N T A R Y A G E N D A

Wednesday, 21st September, 2016

at 6.30 pm

Room 102, Hackney Town Hall, Mare Street,
London E8 1EA

Committee Membership

Cllr Brian Bell (Vice-Chair)
Cllr Robert Chapman
Cllr Michelle Gregory
Cllr Sem Moema
Cllr Nick Sharman (Chair)
Cllr Carole Williams

Tim Shields
Chief Executive

Contact:
Jackie Dally
Governance Services Officer
Tel: 020 8356 3503
Email: Jackie.dally@hackney.gov.uk

The press and public are welcome to attend this meeting

AGENDA

Wednesday, 21st September, 2016

ORDER OF BUSINESS

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Access and Information

Location

Hackney Town Hall is on Mare Street, bordered by Wilton Way and Reading Lane, almost directly opposite Hackney Picturehouse.

Trains – Hackney Central Station (London Overground) – Turn right on leaving the station, turn right again at the traffic lights into Mare Street, walk 200 metres and look for the Hackney Town Hall, almost next to The Empire immediately after Wilton Way.

Buses 30, 48, 55, 106, 236, 254, 277, 394, D6 and W15.

Facilities

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall.

Induction loop facilities are available in the Committee Rooms and the Council Chamber

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

Copies of the Agenda

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Council & Democracy- www.hackney.gov.uk

The Council & Democracy section of the Hackney Council website contains details about the democratic process at Hackney, including:

- Mayor of Hackney
- Your Councillors
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- Speaker
- MPs, MEPs and GLA
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- Introduction to the Council
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RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

Where a meeting of the Council and its committees are open to the public, the press and public are welcome to report on meetings of the Council and its committees, through any audio, visual or written methods and may use digital and social media providing they do not disturb the conduct of the meeting and providing that the person reporting or providing the commentary is present at the meeting.

Those wishing to film, photograph or audio record a meeting are asked to notify the Council's Monitoring Officer by noon on the day of the meeting, if possible, or any time prior to the start of the meeting or notify the Chair at the start of the meeting.

The Monitoring Officer, or the Chair of the meeting, may designate a set area from which all recording must take place at a meeting.

The Council will endeavour to provide reasonable space and seating to view, hear and record the meeting. If those intending to record a meeting require any other reasonable facilities, notice should be given to the Monitoring Officer in advance of the meeting and will only be provided if practicable to do so.

The Chair shall have discretion to regulate the behaviour of all those present recording a meeting in the interests of the efficient conduct of the meeting. Anyone acting in a disruptive manner may be required by the Chair to cease recording or may be excluded from the meeting. Disruptive behaviour may include: moving from any designated recording area; causing excessive noise; intrusive lighting; interrupting the meeting; or filming members of the public who have asked not to be filmed.

All those visually recording a meeting are requested to only focus on recording councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure by someone recording a meeting to respect the wishes of those who do not wish to be filmed and photographed may result in the Chair instructing them to cease recording or in their exclusion from the meeting.

If a meeting passes a motion to exclude the press and public then in order to consider confidential or exempt information, all recording must cease and all recording equipment must be removed from the meeting room. The press and public are not permitted to use any means which might enable them to see or hear the proceedings whilst they are excluded from a meeting and confidential or exempt information is under consideration.

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

Hackney Council's Code of Conduct applies to **all** Members of the Council, the Mayor and co-opted Members.

This note is intended to provide general guidance for Members on declaring interests. However, you may need to obtain specific advice on whether you have an interest in a particular matter. If you need advice, you can contact:

- The Director, Legal;
- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

- relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;
- relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or
- affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

- Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).
- You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.
- If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

- i. It relates to an external body that you have been appointed to as a Member or in another capacity; or
- ii. It relates to an organisation or individual which you have actively engaged in supporting.

4. If you have other non-pecuniary interest in an item on the agenda you must:

- i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.
- ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.
- iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.
- iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

Advice can be obtained from Yinka Owa Director of Legal on 020 8356 6234 or email Yinka.Owa@hackney.gov.uk



FS 566728



Statement of Accounts 2015/16

**AUDIT COMMITTEE
MEETING DATE 2015/16**

21 September 2016

CLASSIFICATION:

Open

**If exempt, the reason will be listed in the
main body of this report.**

WARD(S) AFFECTED

All Wards

GROUP DIRECTOR

Ian Williams Corporate Director of Finance and Resources

1. CORPORATE DIRECTOR'S INTRODUCTION

- 1.1 This report presents the Accounts for 2015/16 for approval by the Audit Committee prior to the issue of the audit opinion by the external auditor.
- 1.2 The main financial statements show that we continue to manage our finances in line with the resources available.

2. RECOMMENDATION

The Audit Committee is recommended to:

- 2.1 **Approve the Council's 2015/16 Statement of Accounts prior to the audit opinion being issued.**
- 2.2 **Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

3. REASONS FOR DECISION

- 3.1 The Audit Committee is responsible for the approval of the financial statements under the Council's Constitution as "those charged with governance". The Regulations state that the accounts must be approved by a Committee of the Council, but not the Executive, prior to the audit opinion being issued.

4. BACKGROUND

4.1 Policy Context

The production of the Statement of Accounts and its subsequent review and adoption by Members is integral to the good financial management of the Council. It sets out the final outturn position of the authority for the preceding financial year both in terms of revenue and capital expenditure and provides a position statement regarding its wider overall financial position, thus providing the required confirmation of assumptions used in setting budgets and strategy for the future financial plans.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report.

4.3 Risk Assessment

There are no risks arising directly from this report, although clearly the timely and accurate finalisation of the accounts closure process and production of the statement of accounts is vital to ensure that the overall financial position of the Council is fully understood in order to ensure that future plans in respect of service delivery options are deliverable within the financial constraints of the Council.

5 ACCOUNTS AND AUDIT REGULATIONS

- 5.1 The Accounts and Audit Regulations require that the unaudited accounts are produced on or before 30th June. Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance & Corporate Resources) must, no later than 30th June immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.
- 5.2 Subsequent to the above, the accounts are audited by the Council's external auditors, KPMG, and then by no later than 30th September in the year immediately following the end of the year to which the statement relates:
- (a) either by way of a committee or by the members meeting as a whole. the statement of accounts must be considered;
 - (b) following that consideration, the committee must approve the statement of accounts;
 - (c) following approval, the statement of accounts must be signed and dated by the person presiding at the committee at which that approval was given;
 - (d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act; and
 - (e) The Group Director of Finance & Corporate Resources must also re-certify the presentation of the statement of accounts before the relevant body approves it.
- 5.3 The draft Statement of Accounts was published on the Council's website, subject to audit, following its certification by the Group Director of Finance & Corporate Resources on 02nd June 2016, this ensuring that it was available to any resident or other person entitled to formally inspect the accounts during the audit period.
- 5.4 The Accounts and Audit Regulations 2015, which came in force from April 2015, will also require all Local Authorities to publish the Statement of Accounts by 31st May of the year. This will relate to Statement of Accounts produced for the 2017/18 year and onwards. The Council's achievement to publish by 02nd June 2016 this year means the Council is almost there, two years early, and is confident that the new statutory deadline will be achieved.
- 5.5 As part of the Accounts and Audit Regulations 2015 the audit will be required to be completed by 31st July of the year.

6 2015/16 STATEMENT OF ACCOUNTS

- 6.1 At the time of writing this report, the audit of the 2015/16 Statement of Accounts is complete subject to the auditor's final review and completion procedures and it is anticipated that an unqualified audit opinion will be issued by the auditor by the required date of 30th September.
- 6.2 The Statement of Accounts attached at **APPENDIX 1** is the final statement including adjustments agreed with the auditors. It is however, subject to the completion of final checks by the auditors that agreed amendments have been properly reflected. It should be noted that changes identified during the audit have had no affect on main statements within the accounts and have no impact on the Council's General Fund balance, HRA balance or other earmarked reserves.
- 6.3 The Statement of Accounts comprises the following accounting statements:
- Movement in Reserves Statement – this shows the movement in the year on the different reserves, both usable and unusable, held by the Authority.
 - Comprehensive Income and Expenditure Statement – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
 - Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.
 - Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year.
 - Housing Revenue Account Income and Expenditure Statement – this shows separately the net cost of delivering those services provided as a landlord for domestic properties. It should be noted that these costs are also included in the Comprehensive Income and Expenditure Statement detailed above.
 - Statement of Movement on the Housing Revenue Account – this shows all income and expenditure related to the HRA and its impact on the overall balance held within the HRA.
 - Collection Fund Revenue Account – this shows all income and expenditure related to local taxation, including Council Tax, Non-Domestic Rates and payments to the Council's General Fund, Central Government and the local preceptor, the Greater London Authority.
 - Pension Fund Accounts – these show all receipts to the Pension Fund during the year together with benefits paid, other associated costs and movements in

investments, including the financial position of the Fund at the end of the financial year.

In addition, the Statement of Accounts includes:

- Narrative Statement – a statement from the Group Director of Finance & Corporate Resources, providing some context to the statements and an overview of the main issues contained therein.
- Annual Governance Statement – this sets out how the Council has complied with its adopted Code of Governance and provides details of any significant governance issues that arose during the year. This statement is subject to approval of the Committee in its own right.
- Notes to the Accounts – these provide additional disclosures and detail regarding the figures included in the main accounting statements in order to provide a greater understanding of the financial affairs of the Authority during the year. They include the accounting policies adopted in the preparation of the accounts and are reviewed regularly to ensure that we remain in full compliance with the most recent and applicable accounting standards.

7 MOVEMENT IN RESERVES STATEMENT

- 7.1 The Movement in Reserves Statement shows that the general balances on both the General Fund and the HRA were maintained at £15.00 million and £10.20 million respectively. Locally managed funds held by schools reduced by £4.886 million to £12.888 million. A net of £25.754m was applied from earmarked General Fund reserves including those set aside to finance the delivery of the Capital Programme, including schemes to expand and refurbish primary schools, annual maintenance and upkeep of the Borough's infrastructure and of course maintenance and improvement of the Council's Housing stock. On completion of the audit the Group Director of Finance and Corporate Resources will undertake a further review of reserves and balances with the aim to release resources, where appropriate, to support the Capital Programme and other priority areas.
- 7.2 Full details of the movements in earmarked reserves are provided in note 8 to the accounts, along with brief descriptions of the purpose of each. As set out in the Group Director of Finance & Corporate Resources comments in this report, the reserves are set aside for known/potential liabilities that will arise in future financial years and have been taken into account in the Authority's Medium Term Financial Planning.
- 7.3 As set out above, many of the reserves are to be used in 2016/17 and future years to finance approved capital schemes. Others are specifically identified to help manage service pressures and costs arising from specific projects requiring one-off resource not covered by the Council's ongoing revenue budget.

8 COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

- 8.1 This statement shows the accounting cost of the provision of services by the authority. It needs to be read in conjunction with both the Movement in Reserves Statement and note 7 to the Accounts in order to derive the net cost of services borne by the local taxpayer in line with regulations and in order to gain a full understanding of the financial performance of the Council.
- 8.2 The account shows that the Authority spent a gross amount of £1.031 billion providing services to residents and visitors to Hackney. The Council earned total investment income of only £2.120 million attributable to the General Fund, Housing Revenue Account and schools balances, due mainly to the continued low interest rates available.
- 8.3 The General Fund underspend of £1.352 million (including unspent contingencies), equates to 0.14% of gross budgeted expenditure. This level of underspend was a direct result of the overall continued successful delivery of savings agreed as part of the 2015/16 budget setting process along with a very clear decision to implement and deliver the savings necessary for the 2016/17 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented to the Council arising from the further significant reductions in government funding available to it. Sound financial management and the early delivery of efficiencies are enabling the Council to continue to direct its resources towards its priority areas whilst managing continued significant reductions in funding from Central Government.

9 THE BALANCE SHEET

- 9.1 The Balance Sheet sets out the overall financial position of the Council at 31 March 2016. It shows that at 31 March 2016 the Council had total net assets (worth) of £3.290 billion. It shows that the Council owns buildings, land and other property valued at £3.794 billion.
- 9.2 The Provisions item represents amounts set aside to cover known and measurable liabilities arising from past events and further details of these are shown in notes to the Balance Sheet.
- 9.3 Details of contingent assets and liabilities are set out in notes 45 and 46 to the main accounts. These represent instances where the Council may have to pay (or may receive) as a result of past events but which are dependent on some future event such as the outcome of a legal case. Contingent assets and liabilities are less likely to arise than provisions and may be impossible to quantify. Unlike actual assets and provisions, they are not provided for in the Accounts. If they become payable they have to be funded from the current or future years' budgets. They therefore represent an area of budgetary risk from 2016/17 onwards.
- 9.4 Finally, set out within the Balance Sheet are details in relation to the reserves and balances that finance the net assets. Explanations of each of these are

provided in the relevant notes to the accounts. The Major Repairs Reserve is detailed in the notes to the Housing Revenue Account. The General Fund Balance consists of two key elements those being the General Fund balance and the Schools balances. Schools Balances cannot be used for any other purpose than funding schools.

10 HOUSING REVENUE ACCOUNT

- 10.1 The Housing Revenue Account (HRA) details Income and Expenditure relating to the provision and management of council dwellings. It shows that the balance on the Housing Revenue Account is £10.200 million as at 31 March 2016. In addition, the HRA has earmarked reserves of £2.497 million set aside for one-off items of expenditure, all in line with the HRA Medium Term Planning Forecast and the approved HRA Business Plan.

11 THE COLLECTION FUND ACCOUNT

- 11.1 The Collection Fund Accounts flow from decisions taken in March 2015 in setting the Budget for 2015/16. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptor (the Greater London Authority) and the Council for their respective shares of Council Tax and NNDR, and to the Government in respect of their share of NNDR. Distribution of previous years' surpluses or deficits are also paid from the Collection Fund to the Council and GLA in respect of Council Tax and NNDR and additionally to Government in respect of NNDR only. Provision is also made for Bad Debts for both Council Tax and NNDR.
- 11.2 The surplus on the Collection Fund relating to Council Tax carried forward from 2014/15 and attributable to the Council was £3.925 million. During the year an increase of £0.601 million arose resulting in a surplus attributable to the Council carried forward at 31 March 2016 of £4.526 million. An estimated sum of £3.567 million was taken into account in arriving at the 2016/17 Council Tax, the balance to be accounted for in 2017/18 in accordance with the Collection Fund Regulations. Given that the actual balance attributable to the Council was broadly in line with the estimate taken account of in the 2016/17 budget, the increase in the surplus brought forward is in line with expectations and financial planning assumptions.
- 11.3 As set out above, the arrangements for accounting for NNDR changed with effect from 2013/14 with previously no balance being created within the Collection Fund. The deficit on the Collection Fund in respect of NNDR attributable to the Council as at 31 March 2016 was £4.746 million, of which £2.0 million was taken into account when estimating the Council's share of NNDR income in the 2016/17 budget exercise. The balance will be accounted for when estimating the NNDR income for future years in accordance with the Regulations. The variance between the estimate and actual deficit as set out was caused largely by lower actual rate yield being realised due to some

major properties not being added to the rating list by the Valuation Office in expected timescales as well as a larger provision for bad debts being required than was included in the original estimate.

12 THE PENSION FUND ACCOUNTS

- 12.1 The Pension Fund Accounts, along with the Annual Report of the Pension Fund, are to be considered by the Pensions sub-Committee at its meeting on 19th September 2016.
- 12.2 The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2015/16, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2016.
- 12.3 The Accounts show that net value of the assets and liabilities of the Pension Fund have decreased by £2.518 million (0.214%) to £1,172.283 million as at 31 March 2016. Of this decrease, £19.942 million was due to the impact of the decrease in the value of stock market investments held by the Fund and associated investment income. The remaining £22.460 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

13 GROUP ACCOUNTS

- 13.1 Until 2011/12, Group Accounts showing the consolidated position of the Council and Hackney Homes Ltd were produced although the net impact of these on the Council's overall accounts had been insignificant. Given the immaterial impact, it was agreed with the auditors that the Council no longer need to produce Group Accounts.
- 13.2 As set out in note 44 to the accounts, as a result of this agreement, the Council's main accounts now includes a pensions liability in respect of Hackney Homes amounting to £17.165 million, reflecting the potential constructive obligation resting with the Council to meet any deficit recognised in the accounts of Hackney Homes Ltd.

14 ANNUAL GOVERNANCE STATEMENT

- 14.1 Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the management of risk.

- 14.2 In 2008 the Council developed a Local Code of Governance consistent with the principles of governance set out in *Delivering Good Governance in Local Government* (2007) (CIPFA SOLACE Framework). The Code was developed in consultation with members of the Council's Governance Steering Committee, formed to strengthen governance arrangements and develop and update the Code. The code was approved by the Hackney Management Team and Cabinet on 23 June 2008 and reviewed during 2012 by the Governance & Resources Scrutiny Commission. The Code is available on the Council's website.
- 14.3 The Annual Governance Statement (AGS), included with the statement of accounts, explains how the Council has complied with the Local Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.
- 14.4 The AGS has been presented in accordance with best practice as set out in "Delivering Good Governance in Local Government". The statement is signed by Hackney's Mayor, Chief Executive and Group Director of Finance and Corporate Resources.
- 14.5 The statement relates to the governance arrangements in place throughout the 2015/16 financial year and reports on any identified weaknesses or areas for improvement and the action already taken or proposed in the future in order to address these.
- 14.6 During 2008/09 procedures were put in place for the production of 'local' statements from all directorates within the Council and Hackney Homes. This practice was continued in 2015/16 and will be reviewed and updated in 2016/17. The local AGS's and supporting evidence was reviewed by Internal Audit and have formed the basis of the evidence for the corporate AGS.
- 14.7 No significant governance issues were identified during 2015/16 for inclusion within the corporate AGS.
- 14.8 The Committee is required to approve the Annual Governance Statement in its own right, separate from the overall approval of the Statement of Accounts.

15 2016/17 HIGHWAYS NETWORK ASSETS

- 15.1 CIPFA has proposed that as from 2016/17 all Highways Local Authorities are required to adopt the changes in relation to the values being held for Highways Network Assets. The proposal is to change the method of valuing these Assets from the current Historic Cost basis to Depreciated Replacement Costs Basis.
- 15.2 The CIPFA Code of Practice on Transport Infrastructure Assets -2013 edition (The Transport Code) has adopted the new requirements and CIPFA have

confirmed the use of these amendments as part of their 2016/17 Code of Practice.

- 15.3 The Transport Code was first published in 2010 and since that time has been used to provide information for the Whole of Government Accounts and increasingly to support asset management. The Transport Code is based on the principle that the same data should be used for asset management, financial management and financial reporting, with the more effective management of assets being the key driver.
- 15.4 The impact of having to change the valuation of the asset from Historic Costs basis to Depreciated Replacement basis will result in a change in Accounting Policy from 1st April 2016. It is expected that this change in valuation will substantially increase the value of the Council's Highways assets from a current net value base of £154.364m.

A separate note within the Statement of Accounts will be required and the Highways Network Assets will consist of the following categories; Carriageways, Footways, Street Lightning, Street Furniture, Structures, Traffic Management and Land.

16 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 16.1 There are no direct financial consequences arising from this report as it reflects what has already occurred in the last financial year.
- 16.2 The Council has again maintained the position of having a prudent General Fund Balance of £15.000m in line with our policy on reserves and balances. In addition, specific reserves have been earmarked for use in 2016/17 and future years to fund known or expected liabilities going forward.
- 16.3 The financial position shown in the 2015/16 Statement of Accounts demonstrates that the Council has continued to achieve financial stability, i.e. in its Council Tax Collection and in the strength of its Balance Sheet, building on the good progress made in recent years. This has seen the Council not only continue to meet its expenditure commitments from within available resources but at the same time limit any increase in Hackney's element of the Council Tax to 2% in respect of Social Care precept. In addition provision has been made in the budget for a revenue contribution to support capital expenditure and for contributions to be made to earmarked reserves to meet other identified future commitments and potential budgetary risks.
- 16.4 The position provides clear evidence of the Council's ability to be able to continue to deal with the financial pressures that arise from the reduction in resources available to the Council, particularly as a result of severe cuts to Government funding.
- 16.5 The Statement of Accounts for the 2015/16 financial year was the fourth audited by KPMG, following the outsourcing of the assignments previously

carried out by the Audit Commission. In advance of the start of the audit officers worked closely with KPMG to build upon the significant progress that has been made in recent years with regard the efficient auditing of the accounts. Comprehensive planning and continued co-operation between the Council's officers and the auditors has resulted in the main audit for both the Pension Fund and the Council's main statement being completed before the end of August with no significant audit adjustments to the main statements and no changes to the Council's overall financial position e.g. level of balances. The prompt and accurate production of the accounts reinforced by the audit demonstrates the continued improvement in the financial management arrangements that are embedded through the Council. This foundation provides the platform for which the financial challenges in future years can be tackled.

- 16.6 In addition to thanking our external auditors for the constructive way they have engaged positively with my team throughout the audit I would also like to put on record my thanks to all those officers involved with the preparation of the Statement of Accounts and the subsequent audit for the hard work that they have undertaken and the professionalism demonstrated to ensure that we can complete the audit both on time and without qualification.

17 COMMENTS OF THE DIRECTOR OF LEGAL SERVICES

- 17.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for the production and approval of the Annual Statement of Accounts.
- 17.2 The Constitution gives the responsibility for adopting the annual Statement of Accounts of the Authority to the Audit Committee together with the duty to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 17.3 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 17.4 There are no other legal implications arising from this Report.

APPENDICES

Appendix 1 – 2015/16 Statement of Accounts

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

Report Author	Nish Popat	☎ 020 8356 5168
Comments of the Group Director of Finance and Corporate Resources	Michael Honeysett	☎ 020 8356 3332
Comments of the Director of Legal Services	Patricia Narebor	☎ 020 8356 2029

<p>TREASURY MANAGEMENT ACTIVITY REPORT 2016/17 (1st April 2016 – 31st August)</p> <p>21st September 2016</p> <p>AUDIT COMMITTEE</p>	<p>Classification:</p> <p>Public</p>
<p>Ward(s) affected None</p>	
<p>Group Director</p> <p>Ian Williams, Group Director Finance & Corporate Resources</p>	

1. Introduction

This report provides Members of the Audit Committee with a quarterly update on Treasury Management.

2. Recommendation(s)

The Audit Sub-Committee is recommended to:

- **Note the report**

3. Background

This report is the first of the treasury reports relating to the financial year 2016/17 for the Audit Committee. It sets out the background for treasury management activity from April 2016 to August 2016 and the action taken during this period.

4.1 Policy Context

Ensuring that the Treasury Management function is governed effectively means that it is essential for those charged with governance to review the operations of treasury management on a regular basis. This report forms part of the regular reporting cycle for Audit Committee, which includes reviewing the Annual Treasury Management Strategy, and enables the Committee to monitor treasury activity throughout the financial year.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report

4.3 Sustainability

There are no sustainability issues arising from this report

4.4 Consultations

No consultations have taken place in respect of this report.

4.5 Risk Assessment

There are no risks arising from this report as it sets out past events. Clearly though, the treasury management function is a significant area of potential risk for the Council, if the function is not properly carried out and monitored by those charged with responsibility for oversight of treasury management. Regular reporting on treasury management ensures that the Committee is kept informed.

5. Comments of the Group Director, Finance and Corporate Resources

There are no direct financial consequences arising from this report as it reflects the performance from April to August 2016. Whilst investment interest is not used to underpin the Council's base revenue budget, as in some other authorities, there will be an impact on the ability to fund additional discretionary expenditure and capital programmes. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations.

6. Comments of the Director Legal Services

The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

7. Economic Highlights

- **Growth:** The second estimate of Q2 GDP released in September by the Office of National statistics showed the UK economy growing by 0.6% over the quarter and 2.2% year-on-year, this was in line with market expectation. The largest contribution to growth came from the service area.
- **Inflation:** The Consumer Prices Index (CPI) rose by 0.6% in the year to July 2016. This was above market expectations of 0.5%. The main contributors to the increase in the rate were rising prices for motor fuels, alcoholic beverages and accommodation services.
- **Monetary Policy:** At its meeting in August, the Monetary Policy Committee voted unanimously to cut base rate to 0.25% from 0.5% and to introduce Term Funding Scheme. The committee also voted to increase the stock of purchases of gilts to £435 billion from £375 billion, and voted 8 – 1 to purchase £10 billion of corporate bonds. The action by the MPC follows the vote by the UK to leave the European Union. On the back of the leave vote the exchange rate has fallen and outlook for economic growth in the short to medium term weakened.

The Committee undertook a ~~cut~~ ^{Page 24} Bank Rate to lower borrowing costs for companies and households. However, as interest rates were close to zero it was

likely to be difficult for some banks and building societies to reduce deposit rates much further, which in turn might limit their ability to cut their lending rates. To avoid the risk that reductions in Bank Rate did not feed through fully to the rates faced by households and businesses, the MPC considered the establishment of a Term Funding Scheme that would provide funding for banks at interest rates close to Bank Rate. This would provide participants with a cost effective source of funding in the form of central bank reserves to support additional lending to the real economy.

8. Borrowing & Debt Activity

- 8.1 The Authority currently has £3.6m in external borrowing. This is made up as a single LEEF loan from the European Investment Bank to fund housing regeneration.
- 8.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council has an increasing CFR due to its capital program and therefore has forecast a future borrowing requirement. Borrowing to fund capital expenditure can be external, such as from the Public Works and Loan Board (PWLB), or internal, by borrowing from cash balances and reserves.
- 8.3 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internally borrowing. This is where internal funds (cash and reserve balances) are used to finance capital expenditure instead of borrowing the funds from an external source.
- 8.4 Assuming the Council continue to earn an average of 0.89% (Table 2) on its investments, it is currently significantly more cost-effective to borrow internally, rather than take on external debt from the PWLB or other sources. While we would lose investment income of around 0.79% we would avoid paying the interest on external debt at around 2 - 3%. The potential difference in cost is highlighted in table 1.

Table 1: External v Internal borrowing

	External Borrowing	Internally Borrowing
Borrowing amount	£100 m	£100 m
Borrowing rate	1.54%*	0.89%**
Annual cost	£1.54 m	£0.89 m

* PWLB 10 year certainty rate

** Council's current weighted average return

- 8.5 External borrowing rates currently far exceed the return the Council is making on its investments, so savings can be achieved by borrowing internally from reserves
- 8.6 Table 1 highlights the annual cost of internally and externally borrowing £100m. Internally borrowing will result in an annual saving of £650K on every £100m.

9. Investment Policy and Activity

- 9.1 The Council held average cash balances of £220 million during the reported period, compared to an average £257 million for the same period last financial year.

Table 2: Movement in Investment Balances 01/04/16 to 31/08/16

	Balance as at 01/04/2016 £'000	Weighted Average Rate of Interest %	Balance as at 31/08/2016 £'000	Weighted Average Rate of Interest %
Short Term Investments	136,495	-	100,995	
Long Term Investments	28,000	-	37,000	
Tradable Instruments	18,772		31,568	
Cash enhanced AAA – rated MMF	8,000		8,000	
AAA-rated Money Market Funds	10,625	-	30,490	
Total	201,892	0.83	208,053	0.89

- 9.2 Due to the volatility of available creditworthy counterparties, longer term investments have been placed in highly rated UK Government institutions. Thus ensuring creditworthiness whilst increasing yield due to the duration of the deposits.

Table 2: Council's Long term investments

Counterparty	Amount	Start date	End date	Days to maturity (as at 31/08/2016)	Rate
Glasgow Council	£5,000,000	15/12/2014	15/12/2016	45	0.97%
Barnsley Metropolitan	£5,000,000	23/04/2014	13/01/2017	74	1.18%
GLA	£5,000,000	14/04/2014	12/02/2017	104	1.50%
Rugby Council	£2,000,000	19/02/2015	14/04/2017	165	1.60%
Newport Council	£3,000,000	08/06/2015	10/07/2017	252	0.95%
Newport Council	£2,000,000	09/02/2015	10/07/2017	252	1.10%
LB of Islington	£3,000,000	31/07/2014	31/07/2017	273	1.30%
Glasgow Council	£5,000,000	15/10/2015	15/01/2018	441	1.00%
Rugby Council	£5,000,000	19/06/2015	19/06/2018	596	1.18%
Darlington Borough	£3,000,000	12/02/2016	12/02/2019	834	1.27%
Highlands Council	£3,000,000	19/04/2016	20/04/2020	1267	1.00%
Newcastle City Council	£3,000,000	11/08/2016	15/02/2019	837	1.05%
Glasgow Council	£5,000,000.	15/12/2014	15/12/2016	45	0.97%

- 9.3 The Council has also placed two long term investments with Housing Associations. This represents an additional counterparty to the Council and has therefore helped increase both diversification and yield.

- 9.4 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.
- 9.5 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:
- security of the invested capital; liquidity of the invested capital; and,
 - an optimum yield which is commensurate with security and liquidity.
- 9.6 The ongoing investment strategy remained extremely cautious but counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below:

Table 2: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
30/04/2016	3.33	AA	3.07	AA
31/05/2016	3.17	AA	2.96	AA+
30/06/2016	3.21	AA	3.87	AA
31/07/2016	3.33	AA	3.91	AA
31/08/2016	3.45	AA	3.84	AA

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 27

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

- 9.7 The Council continues to utilise AAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances. This type of investment vehicle has continued to provide very good security and liquidity, although yield suffers as a result.
- 9.8 In light of legislative changes and bail-in risk for unsecured bank deposits, the Council continues to increase its exposure to high quality corporate bonds. This investment vehicle offers good level of security and increases diversification for the Council's portfolio whilst achieving a reasonable yield.

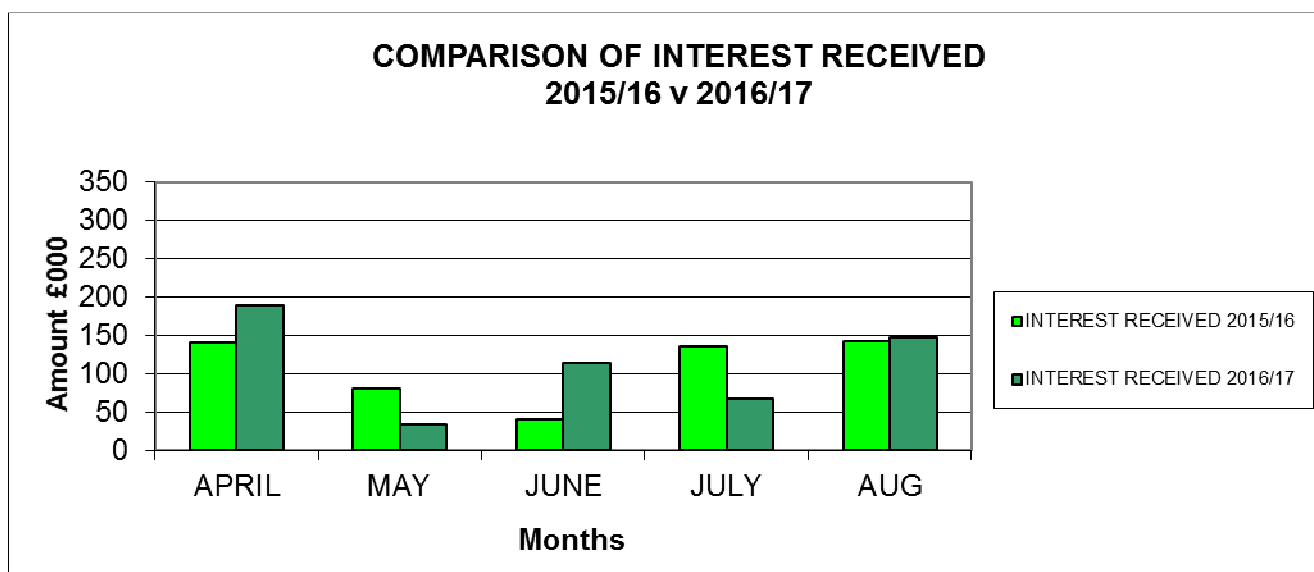
Counterparty	Amount
Daimler	£4,883,015
Motability Operations Group	£4,694,589
Prudential PLC	£4,074,320
Scottish Power	£3,423,417
Total	17,075,341

10. Counterparty Update

10.1 Following the UK vote to leave Europe on the 23rd June 2016, there was a significant number of credit rating changes to reflect the uncertain resulting from the referendum result. Most notable, Fitch and S&P downgrading the UK Government (and all associated institutions such as Local Authorities) to AA. In addition, S&P also downgraded the European Union to AA

11. Comparison of Interest Earnings

11.1 The graph below provides a comparison of interest earnings for 2016/17 against the same period for 2015/16



11.2 The graph shows interest earnings continue to remain low due to market interest rates at historically low levels. Average interest received for the period April to August 2016 was £110k compared to £108k for the same period last financial year.

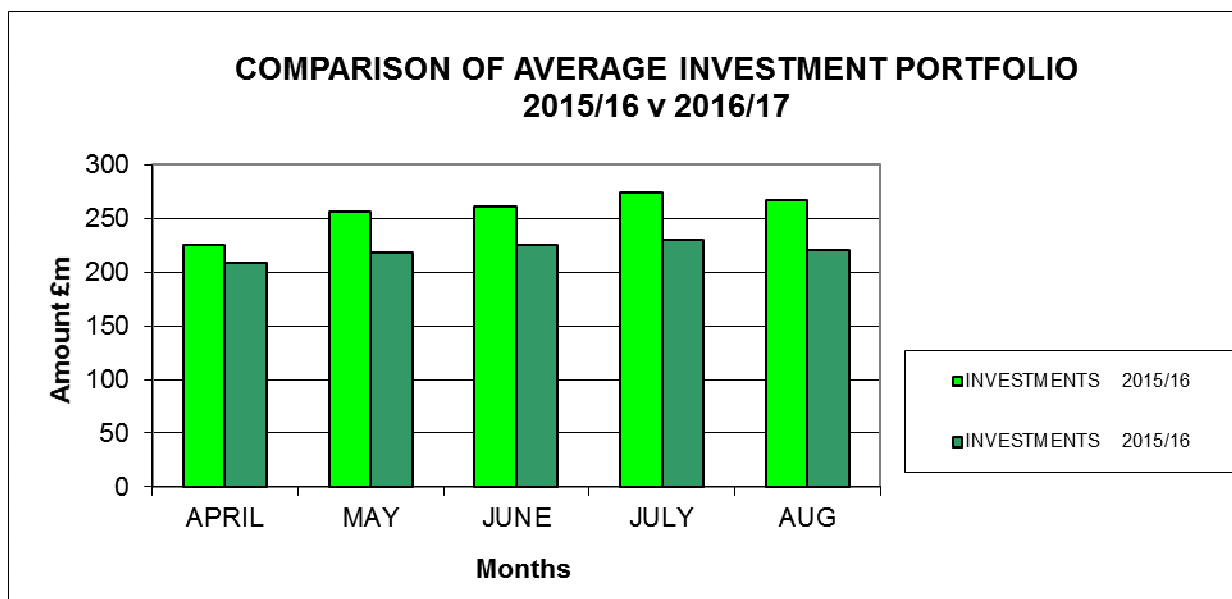
11.3 Although fluctuating on a month by month basis, the interest received has continued to increase on average over the last 2 – 3 years. This increase in interest received is due to the change in approach to treasury. Instead of placing short term deposits, keeping the Council's money very liquid but receiving a low return, the Council has taken a longer view and placed a number of long term deposits, utilising its core cash, and gaining a higher yield.

11.4 However, it should be noted that with the drop in both base rate and gilt yields, it is expecting that interest received will drop in the medium to long term as yields on both Money Market Funds and cash deposits decrease.

12. Movement in Investment Portfolio

12.1 Investment levels have decreased to £220 million at the end of August in comparison to the end of August last year of £267 million. This large balance is still partly due to the large cash injection of the CLG's HRA Reform Settlement Payments Determination, received in 2012/13. The decrease in the investment

balance year on year is the result of the continued approach of maintaining borrowing and investments below their underlying levels; internally borrowing to finance capital expenditure.



13. Summary

13.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first five months of the financial year 2016/17. As indicated in this report, a prudent approach has been taking in relation investment activity with priority being given to security and liquidity over yield.

APPENDICES

None

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document

None

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