Report to the Audit & Governance Committee

Report reference: AGC-016-2012/13
Date of meeting: 24 September 2012

Epping Forest District Council

Portfolio: **Finance & Technology**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators for 2011/12.**

Responsible Officer: **Brian Moldon (01992 564455).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) To consider how the risks associated with Treasury Management have been dealt with during 2011/12; and

(2) To make any comments or suggestions that Members feel necessary to the Finance & Performance Management Cabinet Committee.

Executive Summary:

The annual treasury management outturn report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2011/12 and confirms that there were no breaches of policy during the year.

The risks associated with setting these indicators are highlighted within the report along with how these risks were managed during the year.

Reasons for Proposed Decision:

The proposed decision is necessary in order to show that the risks associated with the treasury strategy were managed during the year and to comply with the requirements of the CIPFA Code of Practice on Treasury Management on reporting on the performance of the treasury activity.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for reporting on the treasury outturn on the financing and investment

activity for the previous year.

2. The report attached at appendix 1 shows the Treasury Management Outturn Report for 2011/12 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council did not plan to borrow in order to carryout its capital investment. The outturn capital programme is shown below in the table:

Capital Expenditure	**2011/12 Original £m**	**2011/12 Revised £m**	**2011/12 Actual £m**
Non-HRA capital expenditure	6.431	5.303	3.943
HRA capital expenditure	6.973	7.026	5.620
Total Capital expenditure	**13.404**	**12.329**	**9.563**
Financed by:			
Capital grants	5.531	5.977	4.251
Capital receipts	5.801	4.237	3.206
Revenue	2.072	2.115	2.106
Total resources Applied	**13.404**	**12.329**	**9.563**
Closing balance on:			
Capital Receipts	12.095	14.612	15.841
Major Repairs Reserve	5.867	6.612	8.241

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve the major repairs allowance received in the year.

6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk is included in the Council's Corporate Risk Register (No. 17) and identifies the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.

7. The table above shows that the balances on Capital Receipts and Major Repairs Reserve are higher than expected. This means that moving forward the Council is in a better position than it had estimated and therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

The impact on the Council's Indebtedness for Capital Purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. During the year the Council borrowed £185.456m to finance the payment to Government for housing self-financing. This has resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No borrowing was incurred in relation to the Council's capital expenditure programme.

CFR	Original 31-Mar-12 £m	Revised 31-Mar-12 £m	Actual 31-Mar-12 £m
Non-HRA	37.519	37.519	30.281
HRA	-38.303	141.697	154.391
Total Capital expenditure	**-0.784**	**179.216**	**184.672**

9. The Council did not breach the Authorised Limit (set at £200m) or the Operational Boundary (set at £186m) and the Maturity Structure of Fixed Rate Borrowing (restricted to 30 years and below).

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this has been achieved through the Council producing a viable thirty-year financial plan. This plan is reviewed quarterly by officers and half yearly reports are presented to Housing Scrutiny Panel. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking any borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder were fixed at preferential rates. Any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the financial plan it is anticipated that all borrowing will be repaid when matured and all future capital expenditure will be financed through internal resources, therefore no risk currently exist for refinancing.

<u>The Council's Treasury Position</u>

11. The table below shows the Council's level of balances for 2011/12.

Treasury position	Original 31-Mar-2012 £m	Revised 31-Mar-12 £m	Actual 31-Mar-12 £m
Balances and Reserves	47.0	47.0	47.1

12. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

13. The Council did not breach any of the following indicators:

(a) The Maximum Upper Limit for Fixed Rate Exposure during 2011/12 was 73.81% (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2011/12 was 26.19% (limit set at 75%);

(b) The maximum amount of the portfolio being invested for longer than 364 days was £5m (limit set at £30m); and

(c) The maximum limit set for investment exposure per country outside of the UK was 14% (limit set at 30%).

14. The risks associated to this section are as follows:

- <u>Credit and Counterparty Risk</u> – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors.

- Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Finance & ICT has monthly treasury meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.

- Interest Rate Risk – the risk of fluctuations in interest rates. The Council allows a maximum of 75% of its investments to be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates.

15. The prudential indicators within this section assist the Council to reduce the risk of:

(a) counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;.

(b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate level of money is available immediately through instant access accounts; and

(c) potentially losing out on investment income when interest rates start to increase by ensuring that the majority of deposits are kept within one year.

Summary

16. The Council has continued to finance its capital programme through using internal resources and capital receipts at the year-end exceeded the anticipated closing balances, resulting in the Council having adequate resources going forward to finance its medium term capital programme. During the year the Council procured £185.5m to finance the HRA self-financing payment, resulting in the Council now becoming a debt authority. The Council did not breach any of the treasury prudential indicators during the year.

Resource Implications:

None.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2011/12 to 2013/14 and the Treasury Management Strategy for 2011/12 went to Council on 22 February 2011 and was amended at Council on 26 July 2011.

Impact Assessments:

Risk Management
As detailed in the report, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A