Report to the Cabinet

Report reference: ***C-002-2011/12***
Date of meeting: ***6 June 2011***

Epping Forest District Council

Portfolio: **Finance & Economic Development**

Subject: **Council's Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14**

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

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

Recommendations/Decisions Required:

(1) That Members approve the amended 2011/12 Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14;

(2) That Members note the amended Treasury Management Prudential Indicators for 2011/12 to 2013/14; and

(3) That authority be delegated to the Director of Finance & ICT to make any decisions on borrowing, in consultation with the Leader and the Finance and Economic Development Portfolio Holder.

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators and a statement on the Minimum Revenue Provision (MRP) before the start of each financial year. This was achieved for 2011/12 when Members approved this in February 2011. However, following the Government announcement to proceed with the Housing Self Financing through the Localism Bill, the Council needs to be ready to borrow around £200m. The amended strategy enables the Council to borrow up to £200m and gives delegated powers to the Director of Finance & ICT to undertake this borrowing, in consultation with the Leader and the Finance and Economic Development Portfolio Holder.

The strategies, as amended if necessary, will be scrutinised by the Audit and Governance Committee on 23 June 2011 prior to consideration by Council on 28 June 2011.

Reasons for Proposed Decision:

The proposed decision is necessary to ensure we have the powers to borrow in order to finance the debt that we will need to pay the Department for Communities and Local Government (CLG) in March / April 2012.

Other Options for Action:

Members could ask for additional information about the Treasury Management Strategy, or could not approve the revised Strategy.

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 – revised November 2009). There is a requirement for Council to approve its treasury and investment strategy and prudential indicators each year.

2. The Council approved the Treasury Management Strategy and Investment Strategy for 2011/12 and the Prudential Indicators for 2011/12 to 2013/14 in February 2011 as part of the budget process.

3. The Strategy was prepared in line with advice from our treasury advisors, Arlingclose. The attached report at appendix 1 shows the amended Treasury Management Strategy Statement and Annual Investment Strategy 2011/12 to 2013/14.

Reason for the Change to the Original Strategy

4. The layout between the strategy approved in February 2011 and the proposed strategy being requested to be approved have not changed, nor have any of the strategy and prudential indicators relating to the investment activities. The only changes relate to the borrowing activities.

5. As Members are aware the Council has been debt free since 2004 and the original strategy (approved February 2011) advised that we had no intention to borrow in order to finance our capital programme. However, Members will be aware that the previous Government announced the proposal to review the current Housing Subsidy System with a view to dismantle this and to offer Councils the possibility to buy themselves out of the Subsidy system. The current Government has pushed forward with this and as part of the Localism Bill from April 2012 the subsidy system will be dismantled and a self financing regime will start. This will result in the Council needing to pay CLG around £200m to buy itself out of the subsidy system.

6. The Council have had initial discussions with Arlingclose who have advised that our treasury strategy needs to be updated as soon as possible to allow the Council the powers to borrow the amount required, during this financial year.

Changes from the Original Strategy

7. The main changes from the original strategy reflect the need for the Council to borrow around £200m. This has resulted in the need to amend a number of the Prudential Indicators as shown below.

Capital Financing Requirement (CFR)

8. The Council's estimated total CFR will change from March 2012 onwards to reflect the need to pay CLG around £200m. This increase in CFR will result in the Council needing to borrow to finance this payment.

	31/02/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
Total CFR				
Original Strategy	-0.784	-0.784	-0.784	-0.784
Amended Strategy	-0.784	179.216	179.216	179.216
Cumulative Net Borrowing Requirement / (Investments)				
Original Strategy	-50.784	-47.784	-43.784	-37.784
Amended Strategy	-50.784	132.216	136.216	142.216

Ratio of Financing Costs to Net Revenue Stream

9. This looks at the affordability of financing costs to the Council's net revenue stream and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet borrowing costs. This will change due to the increase in financing costs from the interest payments due on the loan.

	31/02/2011 Estimate %	31/03/2012 Estimate %	31/03/2013 Estimate %	31/03/2014 Estimate %
General Fund				
Original Strategy	-1.67	-2.01	-3.40	-4.36
Amended Strategy	-1.67	0.54	3.99	6.03
HRA				
Original Strategy	-1.73	-2.05	-3.47	-4.45
Amended Strategy	-1.73	-4.59	30.49	27.98

External Debt

10. The Council's Authorised Limit sets the maximum level of external borrowing on a gross basis and is the statutory limit determined under Section 3(1) of the Local Government Act 2003. The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	31/02/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
Authorised Limit				
Original Strategy	5.0	5.0	5.0	5.0
Amended Strategy	5.0	200.0	200.0	200.0
Operational Boundary				
Original Strategy	0.5	0.5	0.5	0.5
Amended Strategy	0.5	181.0	181.0	181.0

Interest Rate Exposure

11. There has been no change in the way in which the Council wishes to manage the extent to which it is exposed to changes in interest rates. It should be noted that these rates are now for both investments and borrowing rates.

Maturity Structure of Fixed Rate Borrowing

12. This indicator monitors and limits the concentration of fixed rate debt needing to be replaced at the same time, spreading the risk to excessive exposures to volatility in interest rates when refinancing maturing debt. The original strategy had no borrowing over 12 months, in line with the Council decision to remain debt free. However, under HRA self financing, the Council will need to borrow and will need to set limits going forward over 12 months. As we are still to determine the exact composition of the debt, the amended strategy proposes to have an upper limit of 100% on each of the duration periods.

13. Although the Minimum Revenue Provision will not change in this strategy, when we undertake the 2012/13 strategy this will need to be changed accordingly.

Resource Implications:

Within CLG proposal it states 'These reforms only have implications for each stock-retaining local authority's ring-fenced Housing Revenue Account, and will not impact on their general finances'.

We are a debt free authority with a negative overall Capital Financing Requirement (CFR), however, we do have a positive general fund CFR of around £38m. The impact on the General Fund would result in a substantial increase in the cost to the general fund through Minimum Revenue Provision (MRP) payments of £1.5m and an increase in interest payments of £1.6m.

However, there are indications that mitigation will be put in place so that where an authority has no current requirement to make MRP on its General Fund it will not be required to make MRP as a consequence of self financing. However, there has so far been no mention to mitigate against the increased interest charges.

Currently, the interest payment for the borrowing between HRA and General Fund is based on the average rate of return on investment. However, it is generally agreed that the average rate of borrowing will be higher than the average rate on investment, resulting in potential increase in interest charges to the general fund.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes and 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 238(2) 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.

The power to dismantle and to force Council's to buy themselves out of the Housing Subsidy System is included within the Localism Bill that is currently going through Parliament.

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 original treasury management strategy for 2011/12 and prudential indicators for 2011/12 to 2013/14 went to Council on 22 February 2011.

Finance and Performance Management Cabinet Committee on 18 May 2010 – Response to CLG offer on the reform of the HRA subsidy system. CLG prospectus on Council housing: a real future published March 2010.

Impact Assessments:

<u>Risk Management</u>
As detailed in the appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.

<u>Equality and Diversity:</u>

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