Report to the Audit & Governance Committee

Report reference: AGC-012-2011/12
Date of meeting: 22 September 2011

Epping Forest District Council

Portfolio: **Finance & Economic Development**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators for 2010/11.**

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 2010/11; 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 2010/11 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 2010/11 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 does not plan to borrow in order to carryout its capital investment. The outturn capital programme is shown below in the table:

Capital Expenditure	**2010/11 Original £m**	**2010/11 Revised £m**	**2010/11 Actual £m**
Non-HRA capital expenditure	8.511	4.855	3.501
HRA capital expenditure	6.956	6.636	6.430
Total Capital expenditure	**15.467**	**11.491**	**9.931**
Financed by:			
Capital grants	5.984	6.181	5.041
Capital receipts	7.720	3.500	2.680
Revenue	1.763	1.810	2.210
Total resources Applied	**15.467**	**11.491**	**9.931**
Closing balance on:			
Capital Receipts	12.661	17.592	18.694
Major Repairs Reserve	4.895	5.791	6.541

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. The Council currently does not have an overall positive CFR (HRA and Non-HRA), and so has no underlying need to borrow for capital purposes.

CFR	Original 31-Mar-11 £m	Revised 31-Mar-11 £m	Actual 31-Mar-11 £m
Non-HRA	22.019	37.519	38.542
HRA	-22.803	-38.303	-39.326
Total Capital expenditure	**-0.784**	**-0.784**	**-0.784**

9. As the Council has no need to borrow to fund its capital programme, the Council did not breach the Authorised Limit (set at £5m) or the Operational Boundary (set at £0.5m) and the Maturity Structure of Fixed Rate Borrowing (restricted to under 12 months), as no borrowing was undertaken.

10. The risk for most Councils associated with this section relate to Refinancing – the risk that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. As the Council is debt free, there are not currently any risks relating to refinancing.

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

11. During 2010/11 the treasury function managed the debt position to remain debt-free, in accordance with the Council policy. The table below shows the Council's level of balances for 2010/11.

Treasury position	Original 31-Mar-2011 £m	Revised 31-Mar-11 £m	Actual 31-Mar-11 £m
Balances and Reserves	50.0	50.0	51.6

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 2010/11 was 84.26% (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2010/11 was 37.29% (limit set at 50%);

(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 15.5% (limit set at 30%).

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

(a) <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.

(b) <u>Liquidity Risk</u> – 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.

(c) Interest Rate Risk – the risk of fluctuations in interest rates. The Council allows a maximum of 50% 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.

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 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.

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:

None.

Impact Assessments:

Risk Management
As detailed in the report, a risk averse 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