

**Report to: Finance and Performance
Management Cabinet Committee**



Report reference: FPM-030-2011/12
Date of meeting: 19 March 2012

**Epping Forest
District Council**

Portfolio: Finance & Economic Development
Subject: Amended Treasury Management Strategy Statement
Responsible Officer: Brian Moldon (01992 564455).
Democratic Services Officer: Rebecca Perrin (01992 564532).

Recommendations/Decisions Required:

That Members consider and, after amendment where necessary, recommend the amended 2012/13 Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 to 2014/15 to Council for approval.

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators before the start of each financial year. This was achieved for 2012/13 when Council approved the documents in February 2012. However, given the ongoing work on the housing finance reform, it is now necessary to update the strategy. This is to bring it into line with the Council's desire to overfund on the Housing Revenue Account Capital Financing Requirement to provide the flexibility to expand the Council House Building Programme and to enable the Council to continue to internally borrow up to the General Fund Capital Financing Requirement. This will assist in limiting any detrimental impact on the General Fund following the introduction of housing finance reform.

The strategies, as amended if necessary will be considered by Council on the 27 March and be presented to the Audit and Governance Committee on 5 April.

Reasons for Proposed Decision:

The proposed decision is necessary to ensure we have the powers to borrow in excess of the Housing Revenue Account (HRA) Capital Financing Requirement (CFR).

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. Council approved the Treasury Management Strategy and Investment Strategy for 2012/13 and the Prudential Indicators for 2012/13 to 2014/15 in February 2012 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 2012/13 to 2014/15.

Reasons for Amending the Strategy

4. The layout of the strategy approved in February 2012 and the proposed strategy at Appendix 1 have not changed. The only changes relate to the prudential indicators and explanatory text supporting the over funding of the HRA CFR.

5. Members will be aware of the Council's almost unique situation in having an overall negative CFR, but a positive General Fund (GF) CFR. For many years this has allowed the HRA to internally lend to the GF, in return the GF has paid the HRA interest at the average interest rate earned on investments.

6. The introduction of Self-financing and the payment to CLG of £185.456m by the HRA will result in the HRA over borrowing against its CFR. In order to satisfy the external auditors that our Treasury Management Strategy and Prudential Indicators give the Council the powers to do this, the strategy at Appendix 1 has been amended, with the changes highlighted using the track change facility.

Resource Implications:

This will result in no detrimental impact on the General Fund finances as the internal borrowing has already been budgeted for and the forecasted interest charges for the borrowing of the loan is fully funded within the HRA financial plan.

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.

The Council has also received guidance from CIPFA, CLG and our external auditors.

Background Papers:

The report on the Council's Prudential Indicators for 2012/13 to 2014/15 and the Treasury Management Strategy for 2012/13 went to Council on 14 February 2012.

Impact Assessments:

Risk Management

The proposed amendments to the Treasury Management Strategy Statement are intended to reduce the risk of challenge by the external auditor or any other interested party to the Council's approach to self-financing for the Housing Revenue Account. The risk of challenge has been reduced through discussions with CIPFA, CLG and the external auditors and the advice and comments received have fed into the amended strategy. Given the unique nature and size of the transaction, and the fact that it has necessitated new regulations and guidance, the possibility of challenge cannot be completely eliminated.

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