

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



**Report reference: FPM-008-2012/13**  
**Date of meeting: 20 September 2012**

**Epping Forest  
District Council**

**Portfolio: Finance & Technology**

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

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

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

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**Recommendations/Decisions Required:**

- (1) That Members note the 2011/12 outturn for Prudential Indicators shown within the appendices; and**
- (2) That Members note the Treasury Management Outturn Report for 2011/12.**

**Executive Summary:**

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2011/12, and the actual Prudential Indicators for 2011/12.

During the year the Council has financed all of its capital activity through capital receipts, capital grants and revenue contributions, but had to borrow £185.456m through the Public Works Loan Board (PWLB) to finance the payment in relation to self-financing of the HRA. The Council achieved its targets for its treasury and prudential indicators.

This report and the appendices will be considered by the Audit and Governance Committee on 24 September.

**Reasons for Proposed Decision:**

The report is presented for noting as scrutiny is provided by the Audit and Governance Committee who make recommendations on amending the documents, if necessary.

**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 for the year and how it was financed

3. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available, or a decision is taken not to apply capital resources, the expenditure will give rise to a borrowing need.

4. The Council has fully financed its capital expenditure. Similarly to revenue expenditure, capital expenditure is split between the Statutory Housing Revenue Account (HRA) and other expenditure. The actual capital expenditure and financing is shown below in the table.

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

#### The impact on the Council's indebtedness for capital purposes

5. 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.

	2011/12	2011/12	2011/12
<b>CFR</b>	Estimated £m	Revised £m	<b>Outturn £m</b>
Non-HRA	37.519	37.519	<b>30.281</b>
HRA	-38.303	141.697	<b>154.391</b>
<b>Closing balance</b>	<b>-0.784</b>	<b>179.216</b>	<b>184.672</b>

6. The Council's Minimum Revenue Provision (MRP), a mechanism for the amount to be set aside from revenue for the repayment of the debt principal, was approved by Council on

22 February 2011.

7. The Authority's CFR at 31<sup>st</sup> March 2012 become positive as a result of Housing self-financing. This would normally require the local authority to charge MRP to the General Fund in respect of non-HRA capital expenditure funded from borrowing. CLG has produced draft regulations intended to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP.

#### The Council's overall treasury position

8. The table below shows the Council's treasury position for 2011/12.

Treasury position	31/3/2011 £m	31/3/2012 £m
<b>Total external Debt</b>	<b>0.0</b>	<b>185.456</b>
Short Term Investments	47.520	42.349
Fixed Term Investments	0.316	0.137
<b>Total Investments</b>	<b>47.836</b>	<b>42.486</b>
(Net Borrowing) / Net Investment Position	<b>47.836</b>	<b>(142.970)</b>

#### Icelandic Investment

9. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank at that time. The latest report issued by the administrators Ernst and Young, dated 2 May 2012 did not suggest a change from a return to creditors of 86 to 90 pence in the pound. During the year the Council have received dividends of 17.8% (£447,209). The dividends during the year meant that at the year end 67.91% (£1,705,089) had been received.

10. Since 1 April 2012 further dividends of 6.64% (£166,696) have been received. If and when we receive all dividends that exceed the 88p in the pound, this will go into the District Development Fund, where the impairment was charged to in 2010/11.

#### Prudential Indicators

11. The Council confirmed its adoption of the CIPFA Code of Treasury Management at its Council meeting on 22 February 2011. At that meeting the Council also approved the Prudential Indicators for 2011/12.

- a) **Authorised Limit** – This is the maximum amount of external debt that can be outstanding at one time during the financial year.
- b) **Operational Boundary** – This is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity for the financial year.
- c) **Upper Limits for Interest Rate Exposure** – This allows the Council to manage the extent to which it is exposed to changes in interest rate.
- d) **Maturity Structure of Fixed Rate Borrowing** – This is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

- e) **Total principal sums invested for periods longer than 364 days** – This is to allow the Council to manage the risk inherent in investments longer than 364 days.

12. The table below shows the outturn against the strategy.

	2011/12 Revised	2011/12 Outturn
a) Authorised limit	£200m	<b>£185.456m</b>
b) Operational boundary	£186m	<b>£185.456m</b>
c) Upper limits for fixed rate exposure		
- Debt	100%	<b>83%</b>
- Investment	(100%)	<b>(74%)</b>
Upper limits for variable rate exposure		
- Debt	25%	<b>17%</b>
- Investment	(75%)	<b>(26%)</b>
d) Maturity structure of fixed rate borrowing		
- Under 12 months	100%	<b>0%</b>
- 12 months to 5 years	100%	<b>0%</b>
- 5 years to 10 years	100%	<b>0%</b>
- 10 years to 20 years	100%	<b>0%</b>
- 20 years to 30 years	100%	<b>100%</b>
e) Total principal sums invested for periods longer than 364 days	£30m	<b>£5m</b>

### Resource Implications:

The interest rates stayed low throughout 2011/12 which resulted in the investment interest of £0.693m. The outturn was in line with revised figure.

### 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 appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.

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