Report to the Audit & Governance Committee

Report reference: AGC-007-2015/16
Date of meeting: 21 September 2015

Epping Forest District Council

Portfolio: **Finance**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators for 2014/15.**

Responsible Officer: **Simon Alford (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 2014/15; 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 2014/15 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:

<u>Introduction</u>

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 2014/15 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	**2014/15 Original £m**	**2014/15 Revised £m**	**2014/15 Actual £m**
Non-HRA capital expenditure	8.629	8.842	5.648
HRA capital expenditure	17.823	15.250	13.850
Total Capital expenditure	**26.452**	**24.092**	**19.498**
Financed by:			
Capital grants	2.346	1.638	1.149
Capital receipts	7.895	7.578	5.402
Revenue	16.211	14.876	12.947
Total resources Applied	**26.452**	**24.092**	**19.498**
Closing balance on:			
Capital Receipts	5.875	7.661	19.534
Major Repairs Reserve	6.532	10.127	11.154

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 has 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 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 has borrowed £185.456m to finance the payment to Government for housing Self-Financing. This resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No further borrowing was incurred in 2014/15.

CFR	Original 31-Mar-15 £m	Revised 31-Mar-15 £m	Actual 31-Mar-15 £m
Non-HRA	48.6	29.6	29.6
HRA	155.1	155.1	155.1
Closing balance	**203.7**	**184.7**	**184.7**

9. The Council did not breach the Authorised Limit (set at £230m for 2014/15) or the Operational Boundary (set at £204m for 2014/15) 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 was achieved through the Council producing a viable thirty-year financial plan. This plan continues to be reviewed quarterly by officers and half yearly reports are presented to the 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. Only 17% of the amount borrowed in 2011/12 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 exists for refinancing. Policies introduced by the Chancellor's Summer Budget may change this situation going forward, this will be the subject of separate reports on the HRA Business Plan.

<u>The Council's treasury position</u>

11. The table below shows the Council's level of balances for 2014/15.

Treasury position	Original 31-Mar-2015 £m	Revised 31-Mar-15 £m	Actual 31-Mar-15 £m
Usable Reserves	44.6	44.6	59.9
Working Capital	40.0	40.0	55.1

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 2014/15 was 83% for Debt and 87% for Investments (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2014/15 was 17% on Debt and 13% on Investments (limit set at 25%);

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 6% (limit set at 30%). £4m in Sweden.

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

a) Credit and Counterparty Risk – 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) 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 Resources has monthly 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 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.

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.

16. The waste management contractor (and possibly others, e.g. Leisure) have benefitted from the Council providing "Prudential Borrowing". The Treasury Management Strategy Statement has been varied to permit this. £4.1m was lent to the Waste Contractor for the purchase of new vehicles.

Summary

17. The Council has continued to finance its capital programme through using internal resources. Both capital receipts and Major Repairs Reserve 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. 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.

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 or subsequently);
- 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.

Resource Implications:

As outlined within the report.

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 2014/15 and the Treasury Management Strategy for 2014/15 to 2016/17 went to Council on 20 February 2014.

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.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people affected by this report which is not directly service related.