Report to the Audit and Governance Committee

Report reference: AGC-009-2010/11.
Date of meeting: 20 September 2010.

Epping Forest District Council

Portfolio: **Finance and Economic Development.**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators for 2009/10.**

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

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

Recommendations/Decisions Required:

(1) That, as amended if appropriate, the 2009/10 outturn Prudential Indicators and Stewardship report for 2009/10 as attached be considered and recommended to the Finance & Performance Cabinet Committee for approval.

Executive Summary:

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2009/10, and the actual Prudential Indicators for 2009/10.

During the year the Council has financed all of its capital activity through capital receipts, capital grants, and revenue contributions which has resulted in the Council remaining debt-free. The Council achieved its targets for its prudential indicators and exceeded the performance indicator target with its return on investment being higher than the benchmark.

Reasons for Proposed Decision:

The proposed decision is necessary in order to comply with the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators, but in order to comply with the regulations there are few option for action.

Report:

<u>Introduction</u>

1. The report attached at appendix 1 is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code. This report covers:

- the capital activity for the year and how it was financed;
- the impact on the Council's indebtedness for capital purposes;
- the Council's overall treasury position;
- the reporting of the required prudential indicators; and
- benchmarking for 2009/10.

Revision to CIPFA's Treasury Management and Prudential Codes, CLG Guidance on Investments

2. In November 2009 CIPFA released the revised Code of Practice for Treasury Management and Prudential Code for Capital Finance in Local Authorities. The Department for Communities and Local Government (CLG) also issued revised Guidance on Local Authority Investments. The revised Codes / Guidance re-emphasise an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. The Code also required Council's to have a separate committee responsible for the scrutiny of the treasury function.

3. The Council is currently revising its treasury policy and practices documentation to take account of the requirements and changes in the revised Codes and Guidance.

Capital activity for the year and how it was financed

4. 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.

5. The Council has fully financed its capital expenditure and does not therefore have a current borrowing need. 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.

	2009/10	2009/10	**2009/10**
Capital Expenditure	Estimated £m	Revised £m	**Outturn £m**
Non-HRA capital expenditure	9.857	6.063	**4.945**
HRA capital expenditure	6.840	8.143	**8.277**
Total Capital Expenditure	**16.697**	**14.206**	**13.222**
Financed by:			
Capital grants	2.261	1.621	**1.436**
Capital receipts	7.646	4.557	**3.674**
Revenue	6.790	8.028	**8.112**
Total Resources Applied	**16.697**	**14.206**	**13.222**

The impact on the Council's indebtedness for capital purposes

6. The Council is 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 purpose.

	2009/10	2009/10	**2009/10**
CFR	Estimated £m	Revised £m	**Outturn £m**
Non-HRA	22.019	22.019	**22.019**
HRA	-22.803	-22.803	**-22.803**
Closing balance	**-0.784**	**-0.784**	**-0.784**

7. 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 17 February 2009:

"*As the Council is currently debt-free and intends to remain so for the foreseeable future, there is no requirement to make a provision for external debt repayment. If the Council identifies a need to borrow externally, the Council will draw up a minimum revenue provision policy in accordance with proper accounting practice, and will present this to members for approval.*"

8. The Council did not borrow during 2009/10.

The Council's overall treasury position

9. During 2009/10 the treasury function managed the debt position to remain debt-free, in accordance with established Council policy. Although the Council is debt-free and expects to remain so for the foreseeable future, there is a reducing element of debt taken out on behalf of other local authorities. This Council has repaid the underlying external debt in full from its own resources; the authorities concerned are paying the Council their share of the debt plus interest instalments. This is shown below as debt due from other Authorities.

Treasury position	31/3/2009 £m	**31/3/2010 £m**
Total external Debt	**0.0**	**0.0**
Fixed Interest Investments	56.500	**33.622**
Variable Interest Investments	1.186	**10.396**
Debt due from other Authorities	0.534	**0.508**
Total Investments	**58.220**	**44.526**
(Net Borrowing) / Net Investment Position	**58.220**	**44.526**

Icelandic Investment

10. 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 28 January 2010 outlined that the return to creditors was projected to be 85p in the £ by the end of 2012. During the year the Council received dividends totalling £878,091 (34.98%). After the year end a further dividend of £157,511 was received in July 2010.

Prudential Indicators

11. The Council confirmed its adoption of the CIPFA Code of Treasury Management at its Council meeting on 17 February 2009. At that meeting the Council also approved the Prudential Indicators for 2009/10:

(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) *Financing Cost as a portion of net revenue stream* – this demonstrates the revenue implications of capital investment decisions;

(d) *Incremental Impact of Capital Investment Decisions* – this shows the impact of approved capital investment decision on Council Tax and Housing Rents;

(e) Upper Limits for Interest Rate Exposure – this allows the Council to manage the extent to which it is exposed to changes in interest rate;

(f) *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; and

(g) *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:

	2009/10 Revised	**2009/10 Outturn**
Authorised limit	£5.0m	**£0.0m**
Operational boundary	£0.5m	**£0.0m**
Financing cost as a proportion of net revenue stream Non-HRA HRA	 -3.18% -3.29%	 **-3.36%** **-3.48%**
Incremental impact of capital investment decision Band D Council tax Average weekly housing rents	 -£0.71 £0.04	 **-£0.93** **£1.85**
Upper limits for interest rate exposure Fixed rate Variable rate	 100% 50%	 **82.7%** **17.3%**
Maturity structure of fixed rate borrowing Under 12 months Over 12 months	 100% 0%	 **0%** **0%**
Total principal sums invested for periods longer than 364 days	£30m	**£15m**

Benchmarking for 2009/10

13. Members set a target for a local performance indicator for 2009/10 to exceed our interest income against the 7 Day LIBID (the London Interbank Bid rate) rate by 0.10%. In addition the Council is part of CIPFA Treasury Management Benchmark Club. The table below shows our performance against both the 7 Day LIBID rate and against the average club member:

Performance benchmarking	**2009/10 %**
Average In-house team	**1.93**
Average Benchmark Club	**1.86**
Average 7 Day LIBID rate	**0.42**

14. Data is also provided by the benchmark club on costs, with a figure being derived for the cost per £m managed. The Council has a cost of £590 per £m managed which is below the club average of £660 per £m managed. With the average total investment per club member of £43m and EFDC average being £38m, this shows that the Council is providing a cost effective service.

Resource Implications:

The fluctuations in interest rates resulted in the revised estimates for investment interest reducing to £1.087m from £2.146m. 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; and
- 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 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 2009/10 to 2011/12 and the Treasury Management Strategy for 2009/10 went to Council on 17 February 2009.

Impact Assessments:

There are no equalities or risk management impacts.