Report to the Audit & Governance Committee

Report reference: ***AGC-008-2017/18***
Date of meeting: ***18 September 2017***

Epping Forest District Council

Portfolio: **Finance**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators for 2016/17.**

Responsible Officer: **John Bell** **(01992 564387).**

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

Recommendations/Decisions Required:

(1) To consider how the risks associated with Treasury Management have been dealt with during 2016/17; 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 2016/17 and confirms that there were no breaches of policy during the year.

The risks associated with the treasury function 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 2016/17 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 had planned to borrow to finance the capital programme. However, an underspend on the programme and the availability of sufficient cash has allowed the external borrowing to be deferred. The outturn capital programme is shown below in the table:

Capital Expenditure	**2016/17 Original £m**	**2016/17 Revised £m**	**2016/17 Actual £m**
Non-HRA capital expenditure	19.470	22.514	19.594
HRA capital expenditure	28.127	20.563	17.363
Total Capital expenditure	**47.597**	**43.077**	**36.957**
Financed by:			
Capital grants	1.015	1.466	1.799
Capital receipts	8.192	5.077	11.712
Revenue	25.769	16.218	14.146
Borrowing (including Internal)	12.621	20.316	9.300
Total resources Applied	**47.597**	**43.077**	**36.957**
Closing balance on:			
Capital Receipts	7.023	4.136	0
Major Repairs Reserve	0.514	9.143	12.704

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 risk involved with the Capital Activity is the impact on reducing the balances of financial reserves to support the capital programme. 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 Council Tax increases required.

7. The table above shows the movements on the Capital Receipts and Major Repairs Reserve. This shows that the balance on the Capital Receipts Reserve has been fully utilised in supporting the capital programme, but resources are available via the Major Repairs Reserve. Whilst it has been possible to avoid external borrowing in 2016/17 it is clear that this will be required in 2017/18.

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’s CFR becoming an overall positive CFR (HRA and Non-HRA). No further

borrowing was incurred in 2016/17.

CFR	Original 31-Mar-17 £m	Revised 31-Mar-17 £m	Actual 31-Mar-17 £m
Non-HRA	55.0	50.0	29.6
HRA	155.1	155.1	155.1
Closing balance	**210.1**	**205.1**	**184.7**

9. The Council did not breach the Authorised Limit (set at £240m for 2016/17) or the Operational Boundary (set at £230m for 2016/17) 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 on maturity and any borrowing to support future capital expenditure can easily be obtained from other local authorities or the Public Works Loans Board.

The Council's Treasury Position

11. The table below shows the Council's level of balances for 2016/17.

Treasury position	Original 31-Mar-2017 £m	Revised 31-Mar-17 £m	Actual 31-Mar-17 £m
Usable Reserves	46.9	46.9	43.9
Working Capital	3.0	4.0	2.0

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 2016/17 was 83% for Debt and 61% for Investments (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2016/17 was 17% on Debt and 39% on Investments (limit set at 25% and 75% respectively);

(b) the maximum amount of the portfolio being invested for longer than 364 days was £0m (limit set at £15m); and

(c) the maximum limit set for investment exposure per country outside of the UK was £5m. Average £2m in Sweden. Standard Life MMF is domiciled in Guernsey, so is also Non-UK. Average £5m.

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.

Summary

15. The Council has continued to finance its capital programme through the use of internal resources. Whilst the capital receipts reserve has been fully exhausted, it is anticipated that future right to buy sales will fund some part of the programme, and the Major Repairs Reserve will be available to support the on-going capital maintenance of the housing stock, before the need to borrow arises sometime late into the 2017/18 programme. The Council did not breach any of the treasury prudential indicators during the year.

Resource Implications:

As outlined within the report.

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.

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 2016/17 and the Treasury Management Strategy for 2016/17 to 2018/19 went to Council on 18 February 2016.

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.