Report to: Finance and Performance Management Cabinet Committee

Report reference: FPM-007-2010/11
Date of meeting: 26 September 2011

Epping Forest District Council

Portfolio: **Finance & Economic Development**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators 2010/11**

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

Democratic Services Officer: **Rebecca Perrin (01992 564470).**

Recommendations/Decisions Required:

(1) That Members note the 2010/11 outturn for Prudential Indicators shown within the appendices; and

(2) That Members note the Treasury Management Stewardship Report for 2010/11.

Executive Summary:

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2010/11, and the actual Prudential Indicators for 2010/11.

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 treasury and prudential indicators.

This report and the appendices were considered by the Audit and Governance Committee on 22 September and an oral update will be provided on that Committee's recommendations.

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 2010/11 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 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.

	2010/11	2010/11	**2010/11**
Capital Expenditure	Estimated £m	Revised £m	**Outturn £m**
Non-HRA capital expenditure	8.511	4.855	**3.501**
HRA capital expenditure	6.956	6.636	**6.430**
Total Capital Expenditure	**15.467**	**11.491**	**9.931**
Financed by:			
Capital grants	5.984	6.181	**5.041**
Capital receipts	7.720	3.500	**2.680**
Revenue	1.763	1.810	**2.210**
Total Resources Applied	**15.467**	**11.491**	**9.931**
Closing balance on:			
Capital Receipts	12.661	17.592	18.694
Major Repairs Reserve	4.895	5.791	6.541

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. 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.

	2010/11	2010/11	**2010/11**
CFR	Estimated £m	Revised £m	**Outturn £m**
Non-HRA	22.019	37.519	**38.542**
HRA	-22.803	-38.303	**-39.326**
Closing balance	**-0.784**	**-0.784**	**-0.784**

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 16 February 2010.

"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."

7. The Council did not borrow during 2010/11.

The Council's overall treasury position

8. During 2010/11 the treasury function managed the debt position to remain debt-free, in accordance with established Council policy. The table below shows the Council's level of balances for 2010/11.

Treasury position	31/3/2010 £m	**31/3/2011 £m**
Total external Debt	**0.0**	**0.0**
Short Term Investments	39.483	**47.520**
Fixed Term Investments	0.673	**0.316**
Total Investments	**40.156**	**47.836**
(Net Borrowing) / Net Investment Position	**40.156**	**47.836**

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 report issued by the administrators Ernst and Young, dated 10 February 2011 did not suggest a change from a return to creditors of 85p in the pound by October 2012. During the year the Council have received dividends of 15.13% (£397,788) and impaired the 15% principal in line with CIPFA's LAAP Bulletin Update No 4 which was issued May 2011. The dividends during the year meant that at the year end 50.11% (£1,257,880) had been received.

10. However, on the 28 July 2011 Ernst & Young issued a letter to all creditors advising the current projection now suggests a base case return to creditors of 86 to 90 pence in the pound. Since 1 April 2011 further dividends of 10.3% (£258,793) have been received. If and when we receive all dividends that exceed the 85p 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 16 February 2010. At that meeting the Council also approved the Prudential Indicators for 2010/11.

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.

	2010/11 Revised	**2010/11 Outturn**
a) Authorised limit	£5.0m	**£0.0m**
b) Operational boundary	£0.5m	**£0.0m**
c) Upper limits for interest rate exposure		
- Fixed rate	100%	**84.26%**
- Variable rate	50%	**37.29%**
d) Maturity structure of fixed rate borrowing		
- Under 12 months	100%	**0%**
- Over 12 months	0%	**0%**
e) Total principal sums invested for periods longer than 364 days	£30m	**£5m**

Benchmarking for 2010/11

13. Although the Council no longer set a target for interest income, the Council is still part of the CIPFA Treasury Management Benchmarking Club. The following indicators have been reviewed against comparable members of the benchmark club.

Performance benchmarking	**Average from the Club**	**Epping Forest District Council**
Average balance invested for year	£88.1m	£50.2m
Average rate received	1.19%	1.16%
Cost £'k per £'m Managed	£890	£850

Resource Implications:

The interest rates stayed lower than anticipated which resulted in the investment interest reducing to £0.653m from £1.183m in 2009/10. 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 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'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 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11 went to Council on 16 February 2010.

Impact Assessments:

<u>Risk Management</u>
As detailed in the appendices, a risk averse position is adopted to minimise the chance of any loss of the capital invested by the Council.

<u>Equality and Diversity:</u>

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