

**Report to: Audit & Governance  
Committee**



**Report reference: AGC-025-2011/12**  
**Date of meeting: 5 April 2012**

**Epping Forest  
District Council**

**Portfolio: Finance & Economic Development**  
**Subject: Amended Treasury Management Strategy Statement**  
**Responsible Officer: Brian Moldon (01992 564455).**  
**Democratic Services Officer: Gary Woodhall (01992 564470).**

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**Recommendations/Decisions Required:**

- (1) To consider how the risks associated with Treasury Management have been dealt with in the amended Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15; and**
- (2) To make any comments or suggestions that Members feel necessary to Cabinet.**

**Executive Summary:**

The Council is required to approve the Treasury Management Strategy and Prudential Indicators before the start of each financial year. This was achieved for 2012/13 when Council approved the documents in February 2012. However, given the ongoing work on the housing finance reform, it is necessary to update the strategy. This is to bring it into line with the Council's desire to overfund on the Housing Revenue Account Capital Financing Requirement to provide flexibility to expand the Council House Building Programme and to enable the Council to continue to internally borrow up to the General Fund Capital Financing Requirement. This will assist in limiting any detrimental impact on the General Fund following the introduction of housing finance reform.

The risks associated with the changes to the strategies are highlighted within the report along with how these risks are being managed.

**Reasons for Proposed Decision:**

To provide scrutiny of the changes to the Treasury Management Strategy Statement.

**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 determining a treasury strategy on the likely financing and investment activity for the forthcoming year.

2. Council approved the Treasury Management Strategy and Investment Strategy for 2012/13 and the prudential Indicators for 2012/13 to 2014/15 in February 2012 as part of the budget process.

3. The report attached at appendix 1 shows the amended Treasury Management Strategy Statement and Annual Investment Strategy 2012/13 to 2014/15 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

#### Reason for the Change

4. The layout of the strategy approved in February 2012 and the proposed strategy at Appendix 1 have not changed. The only changes relate to explanatory text supporting the over funding of the HRA CFR.

5. Members will be aware of the Council's almost unique situation in having an overall negative CFR, but a positive General fund (GF) CFR. For many years this has allowed the HRA to internally lend to the GF, in return the GF has paid the HRA interest at the average interest rate earned on investments.

6. The introduction of Self-financing and the payment to CLG of £185.456m by the HRA will result in the HRA over borrowing against its CFR. In order to satisfy the external auditors that our Treasury Management Strategy and Prudential Indicators give the Council the powers to do this, the strategy at Appendix 1 has been amended, with the changes highlighted using the track change facility.

#### The Changes

7. The first change under Sources of Borrowing and Portfolio implications (paragraph 6.3) explains and evidences how the Council determine a fair rate. The risk to the Council is the possibility of the fair rate being challenged, either by the external auditors or another interested party. The consequence of a challenge could be:

(a) The Council is forced to charge the General Fund (GF) for the internal borrowing at the average borrowing rate, rather than the average interest earned on investment rate, (i.e. charging the GF interest at around 3.5% rather than the estimated 1%) resulting in an increase in the GF revenue expenditure, at a time, when the Council is looking to find further savings within the GF.

8. The second change within Appendix B (Prudential Indicators) on Capital Financing Requirement (paragraph 5.2) explains and evidences why the Council is over borrowing against the HRA CFR. Again the risk to the Council is from the external auditors or another interested party challenging the Council. The consequence of a challenge could be:

(a) The Council is forced to reduce its borrowing on the HRA back to the HRA CFR position (i.e. reducing the debt from £185.456m to £153.575m resulting in the GF having to either take on external debt to support its current capital programme or to reduce its capital programme).

9. Although the Council cannot be certain that a challenge will not be made, the Council has taken every step possible to mitigate against this. The Council has been talking with Department for Communities and Local Government, CIPFA and our external auditors and all

three parties are happy with the reasons explained within the paragraphs.

### **Resource Implications:**

This will result in no detrimental impact on the General Fund finances as the internal borrowing has already been budgeted for and the forecasted interest charges for the borrowing of the loan is fully funded within the HRA financial plan.

### **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.

The Council has also received guidance from CIPFA, CLG and our external auditors.

### **Background Papers:**

None.

### **Impact Assessments:**

#### Risk Management

The proposed amendment to the Treasury Management Strategy Statement are intended to reduce the risk of challenge by the external auditor or any other interested party to the Council's approach to self-financing for the Housing Revenue Account. The risk of challenge

has been reduced through discussions with CIPFA, CLG and the external auditor and the advice and comments received have fed into the amended strategy. Given the unique nature and size of the transaction, and the fact that it has necessitated new regulations and guidance, the possibility of challenge cannot be completely eliminated.

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