

**Report to: Finance and Performance
Management Cabinet Committee**



Report reference: FPM-009-2016/17
Date of meeting: 15 September 2016

**Epping Forest
District Council**

Portfolio: Finance

Subject: Annual Outturn Report on the Treasury Management and Prudential Indicators 2015/16

Responsible Officer: Simon Alford (01992 564455)

Democratic Services Officer: Rebecca Perrin (01992 564532)

Recommendations/Decisions Required:

- (1) That Members note both the Treasury Management Outturn Report for 2015/16 and the outturn for Prudential Indicators shown within the appendices; and**
- (2) That Members recommend to Cabinet the proposed minor changes to the Council's Treasury Management Strategy Statement and Investment Strategy.**

Executive Summary:

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2015/16, and the actual Prudential Indicators for 2015/16.

During the year the Council has financed all of its capital activity through capital receipts, capital grants and revenue contributions. There has been no additional borrowing in the year to add to the £185.456m taken out previously through the Public Works Loan Board (PWLB) to finance the payment in relation to the self-financing of the HRA. The Council achieved its targets for its treasury and prudential indicators.

In constructing the Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2018/19 some very prudent restrictions were applied to some classes of investments. It has become evident that these restrictions are too prudent and cause operational difficulty in managing the Council's cash flow. Some minor changes are proposed that will ease the operational difficulties without adding significantly to the risk profile of the Council's investments.

This report and the appendices will be considered by the Audit and Governance Committee on 19 September.

Reasons for Proposed Decision:

Any amendment to the Treasury Management Strategy Statement and Investment Strategy requires approval from Cabinet and ultimately Council. The report and appendices are presented for noting.

Other Options for Action:

Members could decide that either no amendments to the Treasury Management Strategy Statement and Investment Strategy are appropriate or that amendments different to those proposed should be made.

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 2015/16 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. 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.

	2015/16	2015/16	2015/16
Capital Expenditure	Estimated £m	Revised £m	Outturn £m
Non-HRA capital expenditure	7.476	32.012	23.488
HRA capital expenditure	18.952	17.905	13.811
Total Capital Expenditure	26.428	49.917	37.299
Financed by:			
Capital grants	1.395	3.393	3.725
Capital receipts	8.002	16.373	19.046
Revenue	17.031	17.597	14.528
Borrowing	0	12.554	0
Total Resources Applied	26.428	49.917	37.299
Closing balance on:			
Capital Receipts	4.662	7.523	3.788
Major Repairs Reserve	5.683	9.523	12.291

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 has previously 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 has been incurred in 2015/16.

	2015/16	2015/16	2015/16
CFR	Estimated £m	Revised £m	Outturn £m
Non-HRA	59.6	43.5	29.6
HRA	155.1	155.1	155.1
Closing balance	214.7	198.6	184.7

6. The Council's policy on 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 2015.

7. The Authority's CFR at 31 March 2012 became positive as a result of Housing self-financing. This would normally require the local authority to charge MRP to the General Fund in respect of non-HRA capital expenditure funded from borrowing. CLG has produced regulations to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP.

The Council's overall treasury position

8. The table below shows the Council's treasury position for 2015/16.

Treasury position	31/3/2015 £m	31/3/2016 £m
Total external Debt	185.456	185.456
Short Term Investments	62.4	51.6
Fixed Term Investments	5.0	0
Total Investments	67.7	51.6
(Net Borrowing) / Net Investment Position	(118.056)	(133.856)

Icelandic Investment

9. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank, a UK registered and regulated subsidiary of an Icelandic bank, at that time.

10. During 2015/16 a further dividend was received from the administrator of £99,979.39. The return is now 98% and it is likely that a further distribution will be received in 2016/17. It is estimated that final recovery will be close to 100%.

Prudential Indicators

11. The Council confirmed its adoption of the CIPFA Code of Treasury Management at its Council meeting on 17 February 2015. The Code was originally adopted on 22 April 2002.

- 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.

	2015/16 TMSS	2015/16 Outturn
a) Authorised limit	£230m	£185.456m
b) Operational boundary	£219m	£185.456m
c) Upper limits for fixed rate exposure		
- Debt	100%	83%
- Investment	(100%)	(71)%
Upper limits for variable rate exposure		
- Debt	25%	17%
- Investment	(75%)	(29)%
d) Maturity structure of fixed rate borrowing		
- Under 12 months	0% - 100%	0%
- 12 months to 5 years	0% - 100%	0%
- 5 years to 10 years	0% - 100%	17%
- 10 years to 20 years	0% - 100%	0%
- 20 years to 30 years	0% - 100%	83%
e) Total principal sums invested for periods longer than 364 days	£30m	£0m

Changes to the Treasury Management Strategy Statement and Investment Strategy

13. Since the approval of the Strategy by Council on 18 February 2016 it has become apparent that three of the limits within the Strategy are excessively prudent and obstruct the efficient management of the Council’s cash flow. Therefore the following changes are proposed -

Local Authorities as a group limit – increase from £20m to £25m.
Money Market Funds as a group limit – increase from £15m to £20m.
NatWest (the Council's banker) – increase from £2.5m to £5m.

14. The Council's treasury advisers, Arlingclose, have been consulted on the proposals and have confirmed that they are acceptable as long as money is only left with NatWest overnight.

15. Any change to the Strategy requires approval from Council so Members are asked to recommend the changes to Cabinet before they progress to Council.

Resource Implications:

Interest rates stayed low throughout 2015/16 which resulted in the investment interest of £0.551m. The outturn was in line with the revised estimate of £0.528m.

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 2015/16);
- 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 2015/16 and the Treasury Management Strategy for 2015/16 which was approved by Council on 17 February 2015.

Risk Management:

As detailed in the appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.

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 are affected by this report which is not directly service related.