Report to: Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report reference: FPM-018-2016/17
Date of meeting: 10 November 2016

Portfolio: **Finance**

Subject: **Mid-Year Report on Treasury Management and Prudential Indicators 2016/17**

Responsible Officer: **Simon Alford (01992 564455).**

Democratic Services Officer: **Rebecca Perrin (01992 564532).**

Recommendations/Decisions Required:

To note how the risks associated with Treasury Management have been dealt with in the first half of 2016/2017.

Executive Summary:

The mid-year treasury report is a requirement of the CIPFA Code of Practice on Treasury Management. It covers the treasury activity for the first half of the financial year 2016/17.

During the first half of the year: the Council has continued to finance all capital expenditure from within internal resources; the average net investment position has been approximately £61.9m by coincidence the same figure as last year; and there have been no breaches on any of the prudential indicators.

This report and the appendices will be considered by the Audit and Governance Committee on 28 November and an oral update will be provided to the next meeting of this Committee.

Reasons for Proposed Decision:

The report is presented for noting as scrutiny is provided by the Audit and Governance Committee who make recommendations to this Committee when necessary.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

<u>Introduction</u>

1. The Council's treasury activities are regulated by statute and a 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 current year. The updated code in 2011 also recommended that Members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is

embracing Best Practice in accordance with CIPFA's recommendations.
2. The report attached at appendix 1 shows the mid-year position of the treasury function 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, grants etc; or through borrowing.

4. The Council planned to borrow in 2016/17 to carry out its capital programme. The original estimate, along with expenditure to month 6 (30 September 2016) is shown below in the table.

Capital Expenditure	Estimated £m	to month 6 £m
Non-HRA capital expenditure	19.47	1.722
HRA capital expenditure	28.127	7.507
Total Capital expenditure	**47.597**	**9.229**
Financed by:		
Capital grants	1.015	
Capital receipts	8.192	
Borrowing	12.621	
Revenue	25.769	
Total resources Applied	**47.597**	

5. The revised capital programme is currently being worked on and will be going to Cabinet for approval in December.

6. There is a financial risk involved in reducing the balance of usable capital receipts over the next five years. This risk has the following potential consequences; loss of interest; loss of cover for contingencies; service reductions required; and Council Tax increases may be required.

7. This prudential indicator assists the Council in controlling and monitoring the level of usable capital receipts that will be available at the end of a five-year period. The original Capital Programme for the three years to 2018/19 totals £102m and was partly funded by £12.6m borrowing. It was predicted that at the end of 2018/19 there would still be £2.99m available in Capital Receipts and nil in the Major Repairs Reserve. These figures will be revised as part of the update to the Capital Programme.

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 now has an overall positive CFR (HRA and Non-HRA) following the borrowing in relation to the HRA self-financing, but had no underlying need to borrow for capital purpose as highlighted in the previous section.

CFR	Financial year 2016/17		
	Estimated £m	**Revised £m**	**to month 6 £m**
Non-HRA	55.0	55.0	29.6
HRA	155.1	155.1	155.1
Total Capital expenditure	**210.1**	**210.1**	**184.7**

9. The Director of Resources confirms that there were no breaches of the Authorised Limit (£240m), the Operational Boundary (£230m) and the Maturity Structure of Fixed Rate Borrowing during the period to 30 September 2016.

10. There are 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 has been evidenced through the Council producing a viable thirty-year financial plan for the HRA. This plan is reviewed quarterly by officers and half yearly reports are presented to Communities Select Committee. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking any borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder was fixed. 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 original capital programme, it was anticipated that all borrowing would be repaid on maturity and that the capital programme could no longer be financed through internal resources. The Council does intend to borrow later in 2016-17 or 2017-18 in order to finance approved capital projects e.g. Langston Road Retail Development.

11. These prudential indicators assist the Council in controlling the level of debt the Council may need to finance over the coming years and ensure where debt is owed it is managed, such that the Council would not be left in a situation where it finds itself having to refinance on unsuitable terms.

<u>The Council's overall treasury position</u>

12. During the first half of 2016/17 the average investment position for the first half of the year was £61.9m. The table below shows the treasury position as at 30 September 2016.

Treasury position	31/03/2016 £m	30/09/2016 £m
Total external borrowing	**(185.456)**	**(185.456)**
Short term investment		
▪ Fixed investment	37.0	33.0
▪ Variable investment	14.6	19.9
Long term investment	0	0
Total investments	**51.6**	**52.9**
(Net Borrowing) / Net Investment Position	**(133.856)**	**(132.556)**

13. 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.

14. The Director of Resources confirms that there have been no breaches of:

a) The limit set for investment over 364 days (£30m). The Council has made no investments over 364 days. The average length of short term investment for the period is 212 days.

b) The limit set for investment in non UK Country (30%). The Council made one investment (9.5%) to a counterparty outside of the UK.

c) The upper limit set for fixed rate exposure on investments was 100%, with the upper limit on variable being 75%. At the end of September 2016 neither upper limit was breached as investments were split between 62% fixed and 38% variable.

15. 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 management advisors (Arlingclose).

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 has currently around 38% of its investments in variable rates (upper limit 75%), and the remainder are in fixed rate deposits on average for around 212 days. 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. The view of the Council's treasury advisors is that interest rates are unlikely to change significantly in the short term.

16. The prudential indicators within this section assist the Council to reduce the risk of:

a) Counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money.

b) The Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate amounts of money are available immediately through instant access accounts.

c) Potentially losing out on investment income when interest rates start to increase by ensuring that most deposits are kept within one year.

Heritable Bank

17. During this financial year, the Council has received no further dividends from the administrators of the Heritable Bank. Therefore total dividends received so far remain at 98% of the value of deposits. A recent letter from the administrators states that they are seeking to extend the administration for another year to 6th October 2017. This is necessary as the

claim on the administration from one of the development sites is still to be settled.

Resource Implications:
The continued low interest rate was reflected in estimated investment income to the Council of £378,000 in 2016/17. The estimate is to be revised shortly, balances will be lower than anticipated and interest rates have fallen and are not expected to rise in the short term.

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 management 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 to 2018/19 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 averse 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 are affected by this report which is not directly service related.