APPENDIX D
FINANCIAL ADMINISTRATION, ETC.

PART 1 – FINANCIAL ADMINISTRATION

1. When a local authority is calculating its budget requirement and consequent council tax, the Chief Financial Officer is now required under Section 25 of the Local Government Act 2003 to report on:

    - the robustness of the estimates made for the purposes of the calculations; and
    - the adequacy of the proposed financial reserves.

2. The emphasis is to ensure that the estimates are sufficient to cover regular recurring costs plus any reasonable risks and uncertainties and, in the event of unexpected expenditure, that there are adequate reserves to draw on. The calculations relate to the budget for the forthcoming year and the legal requirement may, therefore, be interpreted as reporting only on the 2012/13 estimates and the reserves up to 31 March 2013.

3. At South Cambridgeshire District Council, the Executive Director (Corporate Services) as the Chief Financial Officer considers the estimates for the financial year 2012/13 to be sufficiently robust and the financial reserves up to 31 March 2013 to be adequate, the main risks being the actual realisation of savings which have been included in the estimates and the lack of certainty over new homes bonus where the 80% contribution may be cut or capped and the underlying growth in the number of dwellings may not be achieved.

4. As at the end of March 2013, the estimated balances are £6.2 million and £2.3 million on the General Fund and Housing Revenue Account respectively. The minimum balance for the General Fund is normally £1.5 million but it is now considered that the minimum balance for future years should temporarily be increased to £2.5 million during the present period of local government changes and economic uncertainy. The target balance as at 31 March 2017 is slightly above this at £2.6 million. The minimum balance for the Housing Revenue Account has been increased to £2 million because in future years any unexpected capital works may have to be financed from revenue and to provide cover for uninsured losses in excess of the insurance reserve.

PART 2 – BORROWING AND INVESTMENT STRATEGY

Background

5. With effect from 1st April 2004, the Local Government Act 2003:

    (i) included a power for a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of prudent management of its financial affairs;

    (ii) included a power for a local authority to invest for any purpose relevant to its functions under any enactment or for the purposes of prudent management of its financial affairs; and

    (iii) requires a local authority to have regard to any guidance the Secretary of State may issue.

Considerations

6. Revised investment guidance was issued in March 2010 by Department for Communities and Local Government (DCLG). The main changes in the revised guidance are:

(i) the guidance makes even clearer that the investment priorities should be **security** and **liquidity**, rather than yield;

(ii) investment strategies should still go to the full council before the start of each year, but authorities are encourages to consider submitting revised strategies at other times;

(iii) strategies should be published;

(iv) authorities should not rely just on credit ratings but consider also other information on credit risk;

(v) strategies should comment on the use of treasury management consultants; and

(vi) strategies should comment on the investment of money borrowed in advance of spending needs.

7. The Chartered Institute of Public Finance and Accountancy (CIPFA) has also issued in November 2011 a revised edition of its Treasury Management in the Public Services Code of Practice which identifies three key principles:

1) public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;

2) their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds; and

3) they should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practice should reflect this.

8. The proposed borrowing and investment strategy for 2011/12 revised and 2012/13 is attached as **Appendix C1**. The proposed strategy does **not** comply with the Code which, as a minimum, stipulates for reports annually to full Council on the investment strategy <u>and</u> plan, a mid year position report and an end of year performance report.

9. The borrowing and investment strategy sets out the limits within which Council officers must operate. Once the strategy is approved, the Head of Accountancy issues a list of approved organisations/counterparties within each category in the investment strategy, with which the Council can invest. This list is reviewed during the year to take account of:

- mergers of organisations which are reducing the number of counterparties with which the Council can invest;

- the current economic climate whereby organisations which are allowed in accordance with the investment strategy may be suspended from the list of approved organisations,; and

- the credit rating and financial standing of approved organisations which, where available, are checked before any investment decision is made.

10. The Prudential Code for Capital Finance in Local Authorities requires local authorities to set prudential indicators before the beginning of the financial year. These indicators include liquidity of investments, interest rate exposure, etc., and are shown in Appendix D2.

Options

11. These include:

- Continuing with the present policy which has produced good results. The Council is a member of the CIPFA Treasury Management benchmarking club. The results for 2009/10 show that South Cambridgeshire achieved a return of 2.68% on combined investments (less than and more than 365 days) compared to 2.21% for its comparator group and 1.87% for the overall group. South Cambridgeshire was fifth highest in the comparator group of 14 other organisations and twenty third highest in the overall group of 137 other organisations. These good results were achieved at minimal cost;

- Adopting a risk free strategy by investing only with the Debt Management Office which is a government agency and should be totally secure. Interest rates with this organisation are generally substantially lower than rates in the money market and this would result in substantially lower interest on balances than the figure which is in the 2011/12 estimates; and

- Out-sourcing investment but this is probably not economic for the amounts now available.

Implications

12.

Financial	The Council may currently earn less interest on its investments by having a very restricted range of investments but this is considered to be more than offset by the reduced risk of default by counterparties.
Legal	None
Staffing	The use of credit ratings requires some research by staff who deal with treasury management.

Risk Management	There is internal check with division of duties between dealing, administration and authorisation and any losses due to fraud should be covered by fidelity guarantee insurance. Credit and counterparty risk is currently managed by restricting the range of investment organisations to the main banks, building societies, etc. The use of credit ratings places greater reliance on the credit rating agency/ies which do not provide any indemnities against loss.
Equality and Diversity	None
Equality Impact Assessment completed	No
	Not relevant
Climate Change	None

PART 3 – PRUDENTIAL INDICATORS

13. The Prudential Code for Capital Finance in Local Authorities came in to effect from 1 April 2004, the objective being to provide a framework for capital programmes to ensure that:

- capital expenditure plans are affordable;
- all external borrowing and other long term liabilities are within prudent and sustainable levels; and
- treasury management decisions are taken in accordance with professional good practice.

14. Prudential indicators must be set by Council before the beginning of the financial year but can be revised at any time. The Chief Financial Officer is required to establish procedures to monitor performance against the prudential indicators and to ensure that any borrowing is for capital purposes. The indicators are primarily to show whether a local authority is entering into long term commitments which it may not be able to afford in the future. The Council's main long term commitment will be the £205 million debt resulting from the Government's Housing Revenue Account Self Financing reforms and the affordability and sustainability of this debt are addressed in the HRA business plan.

15. The prudential indicators are set out in **Appendix D2.**

Background Papers: the following background papers were used in the preparation of this report:

Revised investment guidance from the DCLG dated 11th March 2010
Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA) 2011 edition
The Prudential Code for Capital Finance in Local Authorities (CIPFA) 2011 edition

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