Treasury management outturn 2009/10

Annual report on the actual prudential indicators 2009/10

Prudential indicators set the parameters within which the council manages the overall capital and treasury management functions. It is a requirement of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities for the council to set prudential indicators for each financial year, and to report on performance against those indicators. The performance for 2009/10 is reported in detailed below.

1. The council's capital expenditure and financing 2009/10

1.1. The council incurred capital expenditure on long term assets. Capital expenditure may either be:

- financed immediately through capital receipts, capital grants, revenue or other contributions; or
- if insufficient financing is available, or a decision is taken not to apply capital resources, the expenditure will be funded by borrowing .

1.2. The council has previously fully financed its capital expenditure and does not therefore have a current borrowing need.

1.3. The wider treasury activities also include managing the council's cash flows and the investment of surplus funds. These activities are structured to manage risk first and foremost, and then optimise performance.

1.4. Actual capital expenditure forms one of the required prudential indicators. Capital expenditure for the year was £7.1 million which is shown in the table below, together with how the expenditure was financed.

Capital Expenditure & Financing	2008/09 actual £m	2009/10 estimate £m	2009/10 actual £m
Non-HRA capital expenditure	7.8	10.8	7.1
HRA capital expenditure	Nil	Nil	Nil
Total capital expenditure	**7.8**	**10.8**	**7.1**
Resourced by:			
Capital receipts	5.5	0.8	0
Capital grants	1.3	0.5	0.7
Capital and revenue reserves	0.9	9.4	6.4
Developer & other contributions	0.1	0.1	0
Total resources applied	**7.8**	**10.8**	**7.1**

2. The council's overall borrowing need

2.1. 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.

2.2. The council's CFR for the year is shown below, and represents a key prudential indicator.

CFR (£m)	31 March 2009 actual £m	Movement	31 March 2010 actual £m
Closing balance	(21.050)	(0.454)	(21.504)

3. Prudential indicators and compliance issues

3.1. Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

3.2. **Net borrowing and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2009/10 plus the expected changes to the CFR over 2009/10 and 2010/11. Since the council does not have a positive CFR, the council's net investment position must be lower than the CFR. The council has complied with this prudential indicator.

3.3. **The authorised limit** - The authorised limit is the "affordable borrowing limit" required by section three of the Local Government Act 2003. The council is not permitted to borrow in excess of this level once it is set. The council has had no need to borrow during 2009/10 as reported in the table below. It has therefore maintained gross borrowing within its authorised limit.

3.4. **The operational boundary** – The operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.5. **Actual financing costs as a proportion of net revenue stream** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Again, because we have not had a need to borrowed this is zero per cent.

	2009/10
Original indicator - authorised limit	10m
Maximum gross borrowing position	Nil
Original indicator - operational boundary	5m
Average gross borrowing position	Nil
Financing costs as proportion of net revenue stream	0%

4. Treasury Position at 31 March 2010

4.1. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

4.2. During 2009/10 the Strategic Director for Finance maintained the debt position at nil, and the treasury position compared with the previous year was:

Actual borrowing position	**31 March 2009**		**31 March 2010**	
	Principal	Average Rate	Principal	Average Rate
Total Debt	£0.00m		£0.00m	
Investment position	**31 March 2009**			**31 March 2010**
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	£62.90m		£62.90m	
Variable Interest Investments	£37.20m		£37.20m	
Total Investments	£100.10m		£100.10m	2.93%
Net borrowing position	£0m		£0m	

5. Investment position

5.1. **Investment policy –** The council's investment policy is governed by ODPM (now DCLG) guidance, which has been implemented in the annual investment strategy approved by council on March 27 2008. The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

5.2. **Resources –** The council's longer term cash balances comprise a mixture of revenue and capital resources, although these will be influenced by cash flow considerations. The council's core cash resources comprised as follows, and meet the expectations of the budget:

Balance sheet resources	**31 March 2009 £m**	**31 March 2010 £m**
Balances	27.8	27.8
Earmarked reserves	20.3	20.3
Grants and other contributions	0.9	0.9
Usable capital receipts	32.5	32.5
Total	**81.5**	**81.5**

5.3. The council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.