Treasury management outturn 2010/11

Annual report on the actual prudential indicators 2010/11

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 2010/11 is reported in detail below.

The council's capital expenditure and financing 2010/11

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

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

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

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, then to ensure funds are available when needed (liquidity) and then to optimise performance.

4 Actual capital expenditure forms one of the required prudential indicators. Capital expenditure for the year was £4.727 million which is shown in the table below, together with how the expenditure was financed.

Capital Expenditure & Financing	2009/10 actual £m	2010/11 working budget £m	2010/11 actual £m
Non-HRA capital expenditure	2.136	5.991	4.727
HRA capital expenditure	nil	nil	nil
Total capital expenditure	**2.136**	**5.991**	**4.727**
Resourced by:			
Capital receipts	1.358	5.142	4.133
Capital grants	0.636	0.689	0.557
Developer & other contributions	0.142	0.160	0.037
Total resources applied	**2.136**	**5.991**	**4.727**

The council's overall borrowing need

5 The Capital Financing Requirement (CFR) is designed to measure the authority's underlying need to borrow for, or finance by other long-term liabilities, capital expenditure. It is not a straightforward concept especially in a debt-free authority since it is designed to show that medium and long term net borrowing will only be for a capital purpose. Borrowing may not necessarily take place externally but the authority may be, in effect, lending to itself. Any change in the CFR would show

an increase or decrease in borrowing and the cost would fall on the council tax. The CFR at the year-end is calculated from figures on the council's balance sheet. A positive figure would show a borrowing requirement.

	£'000	
CFR at beginning of year		(22)
Movement in year		0
Closing balance at 31.03.2011		(22)
Closing balance calculation		
Property, plant and equipment	38,222	
Investment property	30,652	
Intangible assets	86	
Assets held for sale or surplus	303	
Capital adjustment account	(68,982)	
Revaluation reserve	(303)	
CFR from balance sheet		(22)

Prudential indicators and compliance issues.

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

7 **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. As detailed in the main report it was necessary to borrow 3 times in the year to cover temporary cash flow shortages. The total outstanding was always within the authorised limit.

8 **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.

9 **Actual financing costs as a proportion of net revenue stream** - This indicator is meant to show the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (the budget requirement). In an authority with borrowing it would show how affordable the repayments are. In a debt-free authority it shows the contribution of income on cash invested to the net cost of services.

	2010/11
Original indicator - authorised limit	£5m
Maximum borrowing position at any time	£3m
Original indicator - operational boundary	£2m
Average borrowing position over all days when borrowing outstanding	£1.4m
Financing costs as proportion of net revenue stream	(2.03%)

Treasury Position at 31 March 2011

10 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.

11 During 2010/11 the treasury position compared with the previous year was:

	31 March 2010		31 March 2011	
	Principal	Average Rate	Principal	Average Rate
Total Debt	£2.7m	0.46%	£1.5m	0.47%
Fixed Interest Investments	£0.5m	0.45%	nil	
Instant access (money market fund)	£0.09m	0.43%	£0.58m	0.61%

12 Investment policy – The council's investment policy is governed by DCLG and CIPFA guidance, which is implemented in the annual investment strategy approved by council on 17 Feb 2010. The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

13 Resources – The council's longer term cash balances are a mixture of revenue and capital resources, although these will be influenced by cash flow variations (debtors and creditors). The council's core cash resources are as follows:

Balance sheet resources	**31 March 2010 £m**	**31 March 2011 £m**
Balances	2.163	3.326
Earmarked reserves	1.000	0.751
Grants and other contributions	0.859	1.194
Usable capital receipts	9.776	7.662
Total	**13.798**	**12.933**

14 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.