

## POLICY, FINANCE & ADMINISTRATION COMMITTEE

29 JUNE 2010

### REPORT OF HEAD OF FINANCIAL SERVICES

#### ANNUAL REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND ACTUAL PRUDENTIAL INDICATORS 2009-10

##### 1.0 PURPOSE

- 1.1 The Annual Treasury Report is a requirement of the Council's reporting procedures and provides a summary of the Treasury activities in 2009-10. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code.
- 1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

##### 2.0 RECOMMENDATIONS

###### 2.1 It is recommended that:

- (a) **The Treasury Management Annual Report 2009-10 be approved.**
- (b) **The actual position on Prudential Indicators for 2009-10 be noted.**

##### 3.0 KEY ISSUES

- 3.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. These documents were approved by Full Council as part of the budget setting process on 4 February 2009:-
  - 1. Borrowing and Investment Objectives.
  - 2. Capital Finance Objectives.
  - 3. Investment and Borrowing Strategies.
  - 4. Borrowing limits.
- 3.2 Updates are currently provided to Members on a quarterly basis through the Members Newsletter.
- 3.3 During 2009-10 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities with the following exception:-

In April 2009 it was established that seven investments were placed with institutions that had been removed from the approved counterparties list. The errors were identified and rectified as a result of these investments. Members of this Committee were given a verbal update on the position during the year and appropriate action was taken to understand how this had occurred to prevent such a reoccurrence in the future. Internal procedures were strengthened as a result.

Internal Audit reported that 'while errors were made in the year recording and monitoring arrangements allowed for rapid identification of, and response to the errors' and no recommendation was made.

In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach. The key prudential indicators for the year, with comparators, are as follows:

<b>Actual Prudential Indicators</b>	<b>2008-09</b>	<b>2009-10</b>
Actual Capital Expenditure	£6.786m	£5.256m
Capital Financing Requirement		
Non-HRA	£3.995m	£5.270m
HRA	£3.263m	£4.011m
Total	£7.258m	£9.281m
Financing Costs as a proportion of net revenue stream	1.21%	3.95%

Borrowing was only undertaken for capital purposes and the Council's maximum actual borrowing position of £8.588m was within its Statutory Borrowing Limit and the Authorised Limit of £16.5m.

At 31 March 2010, the Council's external debt was £8.588m (£6.988m at 31 March 2009) and its investments totalled £1.0m (£3.354m at 31 March 2009).

- 3.4 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.

The key areas to note are:

- a) The ratio of the financing costs to the net revenue stream has increased (see table above), which means that more of the budget is being taken up by financing costs. Whilst net financing costs (net of investment income) have increased, primarily as a result of increased provision for debt repayment and a significant reduction in investment income, the Council's net revenue stream has also increased as would be expected with any budget and as such the proportion remains similar between the two years. The Council actually under borrowed during the year reflecting a continuing policy of using internal borrowing where it is considered financially prudent to do so.
- b) The net borrowing except in the short term should not exceed the Capital Financing Requirement and at the 31 March 2010 was below that figure, primarily due to the use of internal borrowing. The Council is increasing its use of internal borrowing due to the fall in investment returns compared to the rate at which the PWLB is lending at over the long term. This is to ensure that borrowing levels are prudent and over the medium term the Council's external borrowing, net of investments, is only for a capital purpose.
- c) The Council, on 10 March 2010 borrowed from the Public Works Loan Board £1.6m for a period of one year with the interest rate fixed at 0.7% for the first 6 months. The delay in borrowing, due primarily to the use of internal monies, coupled with a low interest rate (estimate was set at 4.4%) resulted in a saving of £14,000.

- d) The overall investment rate was 0.4% compared to the estimate of 4.25%. As a result of lower interest rates and the reduced level of balances for the majority of the financial year the investment income was £180,000 lower than budgeted. This was highlighted as a risk in last year's annual report to PFA on 24 June 2009 when the shortfall was predicted in the region of £170,000. This was also highlighted as a high risk when the budget was originally set by Full Council on 4 February 2009.
- 3.5 The 2009-10 financial year has featured one of the most testing and difficult economic and investment environments since the 1930's. It has featured a number of very significant changes in the performance of the UK as well as global economy. Beneath all of this has been the undercurrent of uncertainty and mistrust in the financial markets. This was not an easy backdrop in which to undertake treasury management activities, particularly investments.
- 4.0 POLICY AND CORPORATE IMPLICATIONS**
- 4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The Annual Report provides details of all the Treasury Management activities undertaken during the year.
- 5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**
- 5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.
- 6.0 LEGAL IMPLICATIONS/POWERS**
- 6.1 The Local Government Act 2003 provides the powers to invest and borrow as well as providing controls and limits on the activity.
- 7.0 COMMUNITY SAFETY**
- 7.1 There are no direct links to community safety arising from this report.
- 8.0 EQUALITIES**
- 8.1 There are no direct equality issues arising from this report.
- 9.0 RISKS**
- 9.1 These are assessed as part of the Financial Services Service Plan. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council. The budget for 2009-10 assumed an interest rate of 4.25%, however, after a series of base rate cuts the current rate of return is now less than 0.5%. The financial risk associated with interest rates will be monitored on a monthly basis through the Key Service Areas report.
- 10.0 CLIMATE CHANGE**
- 10.1 There are no climate change issues arising from this report.
- 11.0 CONSULTATION**
- 11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year.

## 12.0 **WARDS AFFECTED**

12.1 To varying degrees, all wards are affected indirectly.

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Contact Officer: Robert Child, Senior Accountant – Treasury Management  
Date: 11 June 2010  
Appendices: Appendix A – Annual Report on Treasury Management & Prudential Indicators  
Background Papers: Statement of Accounts  
Final Accounts Working Papers  
Reference: X: Committees/2010-11/290610/RC – Treasury Management Annual Report 2009-10