

The Prudential Code for Capital Investment in Local Authorities

Treasury Management Outturn Report 2010/11

1. Introduction

- 1.1. There are a number of treasury indicators which previously formed part of the prudential code, but which are now more appropriately linked to the Revised Treasury Management Code and guidance 2009. Local authorities are still required to “have regard” to these treasury indicators.
- 1.2 The key treasury indicators which are still part of the Prudential Code are:
- Authorised limit for external debt
 - Operational boundary for external debt
 - Actual external debt

2. External Debt

- 2.1 In the medium term local authorities only have the power to borrow for capital purposes.
- 2.2 **The authorised limit** – This sets the maximum level of external borrowing on a gross basis (i.e. Not net of investments) and is the statutory limit determined under Section 3 (1) of the Local Government Act 2003 (referred to in the legislation as Affordable Limit).
- 2.3 **The operational limit** – This links directly to the Council’s estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limits reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit for future known capital needs now. It should act as a monitor indicator to ensure the authorised limit is not breached.
- 2.5 For this reason the Assembly is recommended to approve the authorised limits and operational boundary limit set out in Table 1.

Table 1: Operational Limit and Authorised Borrowing Limits

	2010/11 Actual £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Capital Programme Borrowing Requirement (Cumulative)	121,164	167,084	172,377	172,761
Alternative Financing Arrangements:				
Current PFI Scheme on Balance Sheet	25,262	24,803	24,296	23,737
Finance Leases – Schools	373	272	149	0
Finance Leases - Vehicles	0	10,000	10,000	10,000
Total Alternative Financing Arrangements	25,635	35,075	34,445	33,737
Total Borrowing liability	146,799	202,159	206,822	206,498
Approved Operational Boundary on Borrowing	115,000	227,081	230,924	240,740

Approved Authorised Limit (affordable limit)	200,000	257,081	280,924	290,740
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3.0 Limits for Fixed and Variable Interest Exposure

- 3.1 The following prudential indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

The Council's existing level of fixed interest rate exposure is 42.86% and variable rate exposure is 57.14%, however it is recommended that the limits in place for 2011/12 are set to ensure flexibility and fluctuations in long term interest rates.

The table below shows the fixed and variable interest rate exposure

	2010/11 Actual %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper limit for fixed interest rate exposure	43	100	100	100
Upper limit for variable interest rate exposure	57	70	70	70

3.2 Maturity Structure of Fixed Rate Borrowing

- 3.2 This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period.

	Actual position %	Upper Limit %	Lower Limit %
Under 12 months	0	20	0
12 Months and within 24 months	33.3	40	0
24 months and within 5 years	66.7	70	0
5 years and within 10 years	0	70	0
10 years and Over	0	60	0

3.3 Investments over 364 days

- 3.3 The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. Taking into account the current level of investments, and future projections of capital expenditure, the following limits will be applied to sums invested:

Principle Sums Invested

	2010/11 £'000 Actual	2011/12 £'000 Estimate	2012/13 £'000 Estimate	2013/14 £'000 Estimate
Total Investments	93,514	90,555	91,913	94,211

(average)				
Maximum invested under 1 year	78,514	90,555	91,913	94211
Maximum invested over 1 year	15,000	50,000	50,000	50,000
Maximum invested over 2 years	0	20,000	20,000	20,000
Maximum invested over 3 years	0	20,000	20,000	20,000

3.4 Upper Limit of Fixed Interest Rate Exposure net of Fixed Investment

	2010/11	2011/12	2012/13	2013/14
Limits	-127.6%	100%	100%	100%
£'000	£30,000			

3.5 Upper Limit for Variable Interest rate Exposure net of variable investment

	2010/11	2011/12	2012/13	2013/14
Limits	70%	70%	70%	70%
Actual	227.6%			
£'000	-£53,511			

4. **Summary Assessment**

- 4.1 The outturn position is set out above in respect of the Prudential Indicators approved by Assembly in February 2010.
- 4.2 The outturn figures confirm that the limits and controls set for 2010/11 were applied throughout the year, and that the treasury management function adhered to the key principles of the CIPFA Prudential Code of **prudence, affordability** and **sustainability**. The treasury management indicators were regularly monitored throughout 2010/11, however the operational limit was breached, this is however not a statutory limit.