Appendix A

The Treasury Management Indicators and Prudential Indicators for 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. Local authorities are still required to “have regard” to these treasury indicators.

1.2 The treasury indicators which are still part of the Prudential Code are:

- Authorised Borrowing Limit
- Operational Borrowing Boundary
- Adoption of the CIPFA Treasury Management Code
- Fixed Interest Exposure
- Variable Interest Exposure
- Maturity Structure of Borrowing
- Investments over 364 days

2. External Debt

2.1 In the medium term local authorities only have the power to borrow for capital purposes.

2.2 External borrowing and investment arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In accordance with best professional practice the Council does not associate borrowing with particular items or types of expenditure. This means that in day to day cash management no distinction can be drawn between revenue or capital funds nor, similarly, between Housing Revenue Account and the General Fund. It should be noted that the code requires that off-balance sheet private finance initiative (PFI) schemes will be treated as outside the prudential indicator for debt, by absorbing revenue resources, they will have to be taken into account in determining the proposed level of capital investment is affordable.

2.3 **The authorised limit –** This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by members. It reflects the statutory limit determined under section 3 (1) of the Local Government Act 2003.

2.4 **The operational limit –** This represents a limit beyond which external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitor indicator to ensure the authorised limit is not breached. The limit is usually lower than the authorised limit.

2.5 At any point in time there are a number of cash flows in and out of the Council’s bank account which are caused by the differential timing of payments and receipts from the Council. It is possible that an unanticipated cash movement could lead to a requirement for temporary borrowing. Such decisions will need to take into account the affordability of borrowing, but it is important that the operational boundary leave sufficient “headroom” for these eventualities.

2.6 The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Executive is recommended to approve the authorised limits and operational boundary set out in Table 1.

3. Prudential Indicators

Table 1: Operational Limit and Authorised Borrowing Limits

	2008/09 £’million	2009/10 £’million	2010/11 £’million	2011/12 £’million	2012/13 £’million
Borrowing	50.0	85.0	115.0	130.0	135.0
Other long-term liabilities	Nil	Nil	Nil	Nil	Nil
Operational Boundary on Borrowing	50.0	85.0	115.0	130.0	135.0
Authorised Limit (affordable limit)	150.0	200.0	200.0	200.0	200.0

3.1 These limits give the Chief Financial Officer authority to undertake borrowing for cash flow purposes. For this reason, in taking its decisions on this budget report, the Council is asked to note that the authorised limit for 2008/09 will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Adoption of the CIPFA Treasury Management Code (Prudential Indicator 13)

3.2 The authority has an integrated treasury management strategy and has adopted the *CIPFA Code of Practice for Treasury Management in the Public Sector.* Treasury management creates the link between an authority’s CFR and the structure of its external debt. Like the operational boundary, these are of direct relevance to day to financial management.

3.3 The new *Prudential Code for Capital Finance in Local Authorities* supplements this by requiring council’s to calculate specific indicators to demonstrate the prudence of its treasury management policies. These are detailed below:

Fixed Interest Exposure

3.4 Borrowing at fixed interest rates limits the Council’s risk from a treasury management perspective, and the upper limit for exposure to fixed interest rates is therefore 100%.

Variable Interest Exposure

3.5 The Council will not be exposed to variable interest rate risk since all its borrowing will be at known overdraft rates (if this occurred) and fixed rates.

Maturity Structure of Borrowing

3.6 This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period. The objective is to ensure that loans in the portfolio mature at different times to limit the exposure to prevailing interest rates when the need to re-finance occurs. The Council's policy is to ensure that over the long term; only 10% of the portfolio will mature in any one year. This goal will only be achieved once the authority has taken on 10 loans as clearly it will not be possible to achieve before this point.

Investments over 364 days

3.7 The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. The risk inherent in the maturity structure of the Council's investments is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance. Taking into account the current level of investments, and future projections of capital expenditure, the following limits will be applied to sums invested:

Table 2: Principle Sums Invested

	2009/10 £'million Estimate	2010/11 £'million Estimate	2011/12 £'million Estimate	2012/13 £'million Estimate
Total Investments (average)	100	100	100	100
Maximum invested over 1 year	25	25	25	25

3.8 These limits are derived from current projections on interest receipts and spending on the capital programme. They also include a level of contingency to take into account an element for new capital bids, and potential shortfalls in receipts from the disposals programme.

4. Summary Assessment

4.1 The Prudential Indicators confirm that the proposed treasury management strategy, in conjunction with the Council's budget strategy and capital programme, is in compliance with the key themes of the Prudential Code, those being prudence, affordability and sustainability.

4.2 The Council needs to confirm it is happy with the arrangements, whereby the Chief Financial Officer has authority, in exceptional circumstances, to borrow up to £200 million. It is anticipated that in practice that such borrowing is unlikely to be necessary.

4.3 The treasury management indicators will be regularly monitored throughout 2010/11.