

The Treasury Management Indicators 2011/12 – 2013/14

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 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). This limit needs to be set or revised by members.
- 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. The Council will only borrow in advance of need if expected long term borrowing rates rise significantly before 2010/11 – 2012/13.
- 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 Probable £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Capital Programme Borrowing Requirement (Cumulative)	128,968	178,013	193,999	206,883
Alternative Financing Arrangements:				
Current PFI Scheme on Balance Sheet	25,262	24,803	24,296	23,737
New PFI Scheme	7,698	13,792	2,378	81
Finance Leases – Schools	601	473	251	39
Finance Leases - Vehicles	0	10,000	10,000	10,000
Total Alternative Financing Arrangements	33,561	49,068	36,925	33,857
Operational Boundary on Borrowing	162,529	227,081	230,924	240,740
Authorised Limit (affordable limit)	212,529	257,081	280,924	290,740

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

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	40	0
24 months and within 5 years	67	70	0
5 years and within 10 years	20	70	0
10 years and within 20 years	0	60	0
20 years and within 30 years	0	60	0
30 years and within 40 years	0	50	0
40 years and within 50 years	0	60	0
50 years and above	0	60	0

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

	2011/12 £'000 Estimate	2012/13 £'000 Estimate	2013/14 £'000 Estimate
Total Investments (average)	90,555	91,913	94,211
Maximum invested under 1 year	90,555	91,913	94,211
Maximum invested over 1 year	50,000	50,000	50,000
Maximum invested over 2 years	20,000	20,000	20,000
Maximum invested over 3 years	20,000	20,000	20,000

These limits are derived from current projections on interest receipts.

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 £257 million in 2011/12. However it should be noted that this does not include any borrowing relating to the housing reform. A revised Limit will be submitted when the final allocations are made by CLG. 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 2011/12.