

## The Prudential Code for Capital Investment in Local Authorities

### Treasury Management Outturn Report 2011/12

#### 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. **Net borrowing and the Capital Financing Requirement**

2.1 To ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

2.2 Net borrowing should not therefore, except in the short term, have exceeded the Capital Financing Requirement (CFR) for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12.

2.3 **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).

2.4 **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 The total CFR as at 31 March 2012 was £485.4m, which is higher than the Approved Authorised Limit of £465m set by the Assembly in February 2012. The Operational and Authorised Limit relates to external borrowing only and Council’s CFR has a large internal borrowing element. Total external borrowing was £335.9m which was inside the Approved Authorised Limit.

2.6 For this reason the Assembly is recommended to approve the authorised limits and operational boundary limit set out in Table 4.

**Table 4: Operational Limit and Authorised Borrowing Limits**

	<b>2011/12 Actual £'000</b>	<b>2012/13 Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>
Capital Programme Borrowing Requirement (Cumulative)	160,109	194,073	200,074	204,424
HRA Self Financing Debt	265,912	265,912	265,912	265,912
Alternative Financing Arrangements:				
Current PFI Schemes on Balance Sheet	57,353	56,370	55,296	54,127
Finance Leases	2,064	1,634	1,334	1,034
<b>Total Alternative Financing Arrangements</b>	<b>59,417</b>	<b>58,004</b>	<b>56,630</b>	<b>55,161</b>
<b>Total Borrowing liability</b>	<b>485,438</b>	<b>517,989</b>	<b>522,616</b>	<b>525,497</b>
Actual External Borrowing (Cumulative)	335,912	N/A	N/A	N/A
Approved Operational Boundary on Borrowing	367,800	431,264	440,564	448,914
Approved Authorised Limit (affordable limit)	465,000	528,000	537,000	546,000

### 3. Limits for Fixed and Variable Interest Exposure

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 88.1% and variable rate exposure is 11.9%. The high fixed interest rate is as a result of locking in low long-term rates for the HRA borrowing. It is recommended that the limits in place for 2012/13 are set to ensure flexibility and fluctuations in long term interest rates.

The table 5 below shows the fixed and variable interest rate exposure.

**Table 5: Fixed and variable rate exposure 2011 to 2015**

<b>Interest Rate Exposures</b>	<b>2011/12 Actual %</b>	<b>2012/13 Estimate %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>
Upper limit for fixed interest rate exposure	88.1	100.0	100.0	100.0
Upper limit for variable interest rate exposure	11.9	70.0	70.0	70.0

### 4. Maturity Structure of Fixed Rate Borrowing

This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period, as summarised in table 6.

The fixed rate borrowing over 10 years was 89.86%, which is higher than the upper limit of 60% set by the Assembly in February 2012. The breach was as a result of exceptionally competitive long term rates available from the PWLB and matches the HRA financing requirements.

**Table 6: Projected Borrowing as at 31 March 2012**

	<b>Actual Position</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	£10,000,000	20%	0%
	3.38%		
12 months and within 24 months	£10,000,000	40%	0%
	3.38%		
24 months and within 5 years	£10,000,000	70%	0%
	3.38%		
5 years and within 10 years	£0	70%	0%
	0.00%		
10 years and above	£265,912,000	60%	0%
	89.86%		

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Proposed revised limits are outlined below and the Assembly is recommended to agree these new limits for 2012/13:

**Table 7: Proposed Maturity Structure of Borrowing for 2012/13**

	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	70%	0%
5 years and within 10 years	70%	0%
10 years and above	100%	0%

## 5. Investments over 364 days

- 5.1 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:

	<b>2011/12 £000's Actual</b>	<b>2012/13 £000's Estimate</b>	<b>2013/14 £000's Estimate</b>	<b>2014/15 £000's Estimate</b>
<b>Limits</b>	99,479	99,500	54,000	60,000

**6. Summary Assessment**

- 6.1 The outturn position is set out above in respect of the Prudential Indicators approved by Assembly in March 2011.
- 6.2 The outturn figures confirm that, with the exception of the fixed rate maturity structure, the limits and controls set for 2011/12 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 2011/12. However the operational limit was breached, but this is not a statutory limit.