Appendix A

Treasury Management Strategy - Prudential Indicators – Forecast Outturn as at August 2010

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

(a) capital expenditure plans are affordable,

(b) all external borrowing and other long term liabilities are within prudent and sustainable levels;

(c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the next five financial years. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy. The forecast outturn for the Prudential Indicators for the financial year to date are detailed below .

The 2009 Statement of Recommended Practice (SoRP) introduced a new accounting policy based on International Financial Reporting Standards (IFRS) with regards to how Private Finance Initiative (PFI) arrangements are accounted for. The new accounting policy results in PFI related assets being brought on to the Council's Balance Sheet. This involves three of the Council's secondary schools, which in turn impacts on the Council's capital financing.

The IFRS adjustment has no impact on the total expenditure of the Council, it instead changes the way this expenditure is accounted for and shown in the Council's accounts, which in turn impacts on Prudential Indicators.

The 2010-11 Prudential Indicators shown below have been revised to show the impact of the PFI adjustments and the Council's performance to date against them. All performance is within the limits.

1. Indicator One: Adoption of the CIPFA Code of Treasury Management in the Public Services

The Council adopted the CIPFA Code of Treasury Management in the Public Services in 2002, and the revised code in 2009. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.

2. Indicator Two: Estimates and actual Capital Expenditure 2010/11

	2010-11 Indicator	2010-11 Forecast Outturn
Capital Expenditure	£106.3m	£104.2m

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.

3. Indicator Three: Estimates of actual capital financing requirements and net borrowing

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet.

	2010-11 Indicator £m	PFI £m	2010-11 Revised Indicator £m	2010-11 Forecast Outturn £m
CFR	216.2	48.7	264.9	253.7

4. Indicator Four: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

	2010/11 Indicator %	PFI %	2010/11 Revised Indicator %	2010-11 Forecast Outturn %
Financing costs to revenue stream	5.3	1.8	7.1	6.8

The overall impact of the PFI arrangement for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure. The difference between the indicator and the forecast outturn is because the CFR (as above) is lower.

5. Indicator Five: Affordability (2) Estimate of the incremental impact of capital investment decisions on the Council Tax

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done of the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Taxbase for the year:

	2010-11 Indicator £	PFI £	2010/11 Revised Indicator £	2010-11 Forecast Outturn £
Incremental impact on Council Tax	(27.97)	-	(27.97)	(37.31)

The overall impact of the PFI arrangement for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure. The difference between the indicator and the forecast outturn is because the CFR (as above) is lower.

6. Indicators Six: External Debt Prudential Indicators

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

	2010-11 Indicator £m	PFI £m	2010/11 Revised Indicator £m	2010-11 Forecast Outturn £m
Authorised Limit for external debt -				
borrowing	311.9		311.9	
other long term liabilities	4.0	48.7	52.7	
Total	**315.9**		**364.6**	
Operational Boundary for external debt-				
borrowing	226.2		226.2	205.0
other long term liabilities	3.0	48.7	51.7	58.7
Total	**229.2**		**277.9**	**263.7**

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year.

"Other long term liabilities" include items that would appear on the balance sheet of the Council under that heading. For example, the capital cost of finance leases would be included, and now the PFI agreement.

The Operational Boundary is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

The following indicators take into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage favourable interest rates in advance of the timing of the actual capital expenditure. The forecast outturn does not represent the actual debt position at year end.

7. Indicator Seven: Variable interest rate exposure

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR).

The limit is expressed as the value of total borrowing less investments

	2010/11 Indicator £m	**2010-11 Forecast Outturn £m**
Upper limit for variable rate exposure	54.0	51.3

8. Indicator Eight: Fixed Interest rate exposures

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

	2010/11	**2010-11**
	Indicator	**Forecast Outturn**
	£m	**£m**
Upper limit for fixed rate exposure	311.9	306.0

9. Indicator Nine: Prudential limits for the maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council’s borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

Period	**Upper Limit Estimate**	**Lower Limit Estimate**	**Actual Borrowing**
Under 12 months	30%	0%	14%
1 - 2 years	30%	0%	0%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	0%
over 10 years	100%	10%	86%

10. Indicator Ten: Total Investments for periods longer than 364 days

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

The Executive Director - Strategic Resources has therefore sought the advice of Sector Treasury Services Ltd, the Council's treasury advisors, who recommended that, given the structure of the Council's balance sheet and its day to day cash needs, it would be reasonable to maintain the limit for investments with life spans in excess of 1 year to £25 million. Consequently it is proposed to keep the limit for investments that may be deposited for more than 1 year at £25 million for 2010/11 and later years.

The Council currently has no investments of more than 364 days.

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