

**Treasury Management Strategy Statement  
and Investment Strategy 2010/11 to 2012/13**

PRUDENTIAL INDICATORS 2010/11 TO 2012/13

**1 Background:**

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

**2 Net Borrowing and the Capital Financing Requirement:**

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Director of Finance reports that the authority had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

**3 Estimates of Capital Expenditure:**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2009/10 Approved £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
General Fund	63,247	65,158	68,774	19,981	19,884
HRA	32,906	32,787	36,964	21,912	17,205
<b>Total</b>	<b>96,153</b>	<b>97,945</b>	<b>105,738</b>	<b>41,893</b>	<b>37,089</b>

Capital expenditure will be financed as follows:

Capital Financing	2009/10 Approved £'000	2009/10 Revised £'000	2010/11 Estimate £'000	2011/12 Estimate £'000	2012/13 Estimate £'000
Capital receipts	7,039	12,642	7,374	8,135	3,871
Government Grants	28,720	17,400	31,200	9,801	11,174
Revenue contributions	5,421	7,698	8,582	2,554	2,732
Major Repairs Allowance	12,641	15,061	10,394	13,017	13,197
Revenue	17,881	15,649	16,624	5,708	4,848
Supported borrowing	10,066	10,259	8,336	6	0
Unsupported borrowing	14,385	19,236	23,228	2,672	1,267
<b>Total</b>	<b>96,153</b>	<b>97,945</b>	<b>105,738</b>	<b>41,893</b>	<b>37,089</b>

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**4 Ratio of Financing Costs to Net Revenue Stream:**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

The ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	%	%	%	%	%
General Fund	5.19%	2.18%	5.55%	6.39%	5.86%
HRA	7.53%	2.60%	5.14%	6.75%	7.36%
<b>Total</b>	<b>5.89%</b>	<b>3.36%</b>	<b>4.99%</b>	<b>6.06%</b>	<b>6.06%</b>

**5 Capital Financing Requirement:**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure\*\*.

<b>Capital Financing Requirement</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	£m	£m	£m	£m	£m
General Fund	146	188	202	196	190
HRA	97	94	104	106	106
<b>Total CFR</b>	<b>243</b>	<b>282</b>	<b>306</b>	<b>302</b>	<b>295</b>

*\*\* in line with CIPFA's guidance, any investments or other items not falling within the classification of fixed or intangible assets, but financed from capital resources must be included within the CFR for the purposes of this calculation.*

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The year-on-year change in the CFR is due to the following

Capital Financing Requirement	2009/10 Approved £m	2009/10 Revised £m	2010/11 Estimate £m	2011/12 Estimate £m	2012/13 Estimate £m
<b>Balance B/F</b>	<b>224</b>	<b>224</b>	<b>282</b>	<b>306</b>	<b>302</b>
Capital expenditure financed from borrowing	24	29	32	3	1
Revenue provision for debt Redemption.	(5)	(5)	(5)	(6)	(6)
Movement in deferred liabilities					
HCC Transferred Debt	(1)	(1)	(1)	(1)	(1)
PFI brought on B/S		35			
PFI Principal Repayments		(1)	(1)	(1)	(1)
Leases brought on B/S					
Lease Principal Repayment					
<b>Balance C/F</b>	<b>243</b>	<b>282</b>	<b>306</b>	<b>302</b>	<b>295</b>

#### 6 Actual External Debt:

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2009	£m
Borrowing	127
Other Long-term Liabilities	20
<b>Total</b>	<b>147</b>

#### 7 Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2009/10 Approved	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£	£	£	£
Increase in Band D Council Tax	3.39	0.50	3.48	1.16
Increase in Average Weekly Housing Rents	2.13	5.05	22.02	21.05

The increase in Band D council tax/average weekly rents reflects the increases in running costs and/or increases in the provision for Capital Financing Charges of £0.9m to undertake borrowing of £36m arising from the proposed capital programme.

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**8 Authorised Limit and Operational Boundary for External Debt:**

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

<b>Authorised Limit for External Debt</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	£m	£m	£m	£m	£m
Borrowing	361	357	397	412	424
Other Long-term Liabilities	22	64	62	60	58
<b>Total</b>	<b>383</b>	<b>420</b>	<b>459</b>	<b>473</b>	<b>483</b>

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

The Chief Financial Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Audit Committee

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<b>Operational Boundary for External Debt</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	£m	£m	£m	£m	£m
Borrowing	351	347	385	400	412
Other Long-term Liabilities	21	61	59	58	56
<b>Total</b>	<b>372</b>	<b>408</b>	<b>444</b>	<b>458</b>	<b>468</b>

**9 Adoption of the CIPFA Treasury Management Code:**

This indicator demonstrates that the Council has adopted the principles of best practice.

<b>Adoption of the CIPFA Code of Practice in Treasury Management</b>
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 19th February 2003.

**10 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:**

These indicators sets upper limits on the amount of net borrowing (total borrowing less investments) with fixed interest rates and variable interest rates for next year and the following two years and has the effect of setting ranges within which an authority would limit its exposure to both fixed and variable interest rate movements

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 limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	%	%	%	%	%
<b>Upper Limit for Fixed Interest Rate Exposure</b>	100	100	100	100	100
<b>Upper Limit for Variable Interest Rate Exposure</b>	35	50	50	50	50

*Note: These limits may be expressed as financial amounts or as percentages.*

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

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**11 Maturity Structure of Fixed Rate borrowing:**

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

<b>Maturity structure of fixed rate borrowing</b>	<b>Estimate 2009/10</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>
under 12 months	40	0	45
12 months and within 24 months	4	0	45
24 months and within 5 years	13	0	50
5 years and within 10 years	17	0	50
10 years and within 20 years	2	0	50
20 years and within 30 years	8	0	75
30 years and within 40 years	4	0	75
40 years and within 50 years	12	0	75
50 years and above	0	0	100

**12 Upper Limit for total principal sums invested over 364 days:**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2009/10 Approved</b>	<b>2009/10 Revised</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>	<b>2012/13 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	50	50	50	50	50