SUBMISSION TO STRATEGIC OVERVIEW AND SCRUTINY COMMITTEE

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SUBMISSION BY THE LEADER AND PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS

TREASURY MANAGEMENT STRATEGY REPORT 2011-14

1. Purpose of Report

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. This TMSS also incorporates the Investment Strategy. Together, these cover the financing and investment strategy for the forthcoming financial year.

CIPFA has defined Treasury Management as:

> *"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk

1.3 The Strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

1.4 The purpose of the presentation of this Treasury Management Strategy Statement is to allow Members to scrutinise:

- The Cash Flow forecast for 2011/12 **APPENDIX A**
- Treasury Management Strategy for 2011-14 **APPENDIX B**
- Minimum Revenue Provision (MRP) Statement 2011/12 – **APPENDIX C**
- Use of Specified and Non-Specified Investments – **APPENDICES D & E**
- Treasury Management Practices (TMPs) **– APPENDIX F**
- Prudential Indicators 2011-14 – **APPENDIX G**

2. Summary of Policy Development

2.1 Cash Flow Forecast

- Treasury Management includes the management of the Council's cash flows as a key responsibility. The planned monthly cash flow forecast for the 2011/12 financial year is shown in detail at **APPENDIX A**. This has been used to calculate the investment income budget and this has been estimated as **£0.133m** (this equates to **3%** of the Council's income from Central Government grants of **£4.702m in 2011/12**) and interest payments of **£0.013m**.
- The graph of cash flow trends for 2009-12 shows the level of our investments is reducing due to the funding of our Capital Programme and the use of Balances to fund the Revenue Budget.
- In addition, the monthly cash flow together with the graph shows investment levels increase in the first half of the year peaking in September 2011. This is due to receipt of Council Tax and Business Rate income instalments. However, these receipts reduce in the second half of the year because of our spend profile and the Council Tax instalments end in January 2012.

2.2 Balance Sheet Projections

- We prepare three year Revenue Forecasts and Capital Programme budgets and these together with the actual Balance Sheet from the previous financial year are used to also prepare three yearly Balance Sheet projections.
- These projections (**APPENDIX B**) are key in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and our Investment Policy and Strategy.
- One important influence on these Balance Sheet projections is the move to International Financial Reporting Standards (known as IFRS). These new standards mean accounting transactions may be treated differently in the Council's accounts to the way they were treated under United Kingdom Generally Accepted Accounting Principles (UKGAAP).
- The key area for this Council's Balance Sheet is in relation to leases and contract hire arrangements. Assets and liabilities previously will have appeared on the lessee's Balance Sheet but will now have to appear on the Council's Balance Sheet if new criteria are met. An allowance has been made in the projections and the Prudential Indicators for these accounting changes although these figures are subject to External Audit review.

2.3 Minimum Revenue Provision Statement 2011/12

- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision or MRP) and each year Council must approve its MRP statement and this will include an allowance for leases that appear on the Council's Balance Sheet because of the changes resulting from the move to International Financial Reporting Standards (known as IFRS).
- As in previous years, the Council proposes to base its MRP on the life of the asset (**APPENDIX C**).

2.4 Treasury Management Advice and the Expected Movement in Interest Rates

- The interest rate outlook provided by the Council's treasury advisor is shown in the table below:

Official Bank Rate

Projection	Dec 2010	Mar 2011	June 2011	Sept 2011	Dec 2011	Mar 2012	June 2012	Sept 2012	Dec 2012	Mar 2013
Optimistic		+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**2.00**	**2.50**	**2.75**
Pessimistic				-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

- The Central Case rates have been used as the basis for preparation of the investment income budgets for 2011/12 and future years.

- However, financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

2.5 The outlook for borrowing rates

- Government funds its borrowing through the issue of Gilts and provides borrowing facilities to Local Government through the Public Works Loans Board (PWLB). The PWLB remains the preferred source of borrowing given the transparency and control that its facilities continue to provide.
- The rates the Government pays for its borrowing influences the rates we will be required to pay on any borrowing we may undertake in the future through the PWLB.
- The Comprehensive Spending Review on the 20 October 2010 announced a change to rates used by the PWLB by increasing the interest rate on all new loans by an average of 1% above UK Government Gilts.

2.6 Specified and Non Specified Investments

- The criteria and limits for Specified Investments and Non Specified Investments are shown in Detail at **APPENDICES D and E**. The changes to those approved in the previous financial year are:

Specified Investments – Treasury Bills (T-Bills) - New Instrument

(i) Treasury Bills are short-term Government debt instruments and just like temporary loans used by local authorities, are a means to manage cash flow. The Debt Management Office issues t-bills and are eligible sovereign instruments meaning they have an AAA rating.

(ii) T-bills are secure with an implicit AAA rating, are liquid with an active secondary market and pay a yield that is currently around 0.5% (double the DMADF account of around 0.25%).

(iii) We are therefore recommending a limit that reflects their low level of risk that is consistent with the Debt Management Account Deposit Facility (DMADF) and therefore **No Limit** will be applied to this investment instrument.

Specified Investments – Banks and Building Societies - New Banks and Changes to Limits

(i) The limits for Banks and Building Societies are recommended to be **reduced**, to reflect the projected level of our investments and to increase the diversity of investments as a result of the increased number of counterparties and instruments we now have available.

(ii) The limit for each bank or building society is recommended to reduce from **£3m** to **£2m.**

(iii) The group limit for individual banks or building societies in the same group is recommended to reduce from **£4m** to **£3m**.

(iv) The Royal Bank of Scotland (RBS) was the only bank within the RBS Group with access to the UK Government's 2008 Credit Guarantee Scheme (CGS) and consequently National Westminster Bank (NWB) was not added to our list of specified Investments. However, because NWB is the Council's Bank and we utilise them as part of our daily cash flow management we included them as a non-specified investment with a limit of **£0.100m**. The credit markets are now not as volatile as they were in the last twelve months, the window for issuance of new Government guaranteed debt under CGS ended in February 2010. Natwest has maintained its long and short term credit ratings throughout the period of stress in the money markets and there is now clarity over which parts of the business of the RBS Group will be transferred to Santander. Therefore, it is recommended that the National Westminster Bank be admitted as a specified investment with an individual limit of **£2m** and an RBS Group limit of **£3m**.

(v) Standard Chartered Bank was one of eight UK institutions that was given automatic access to the UK Government's Credit Guarantee Scheme (CGS) in October 2008. This means it can be deemed as systemically important to the UK Banking System. Moody's has recently upgraded its long term and financial strength ratings following the bank's recent right's issue. Therefore it is recommended that the Standard Chartered Bank be admitted as a specified investment with an individual limit of **£2m**.

Specified Investments – Money Market Funds (Changes to Limits)

- The Half Year Report on Treasury Management Services and Projected Prudential Indicators 2010/11 to Cabinet on 2 November 2010 detailed the benefits of Money Market Funds and how we used them to diversify our investments. Additionally, the report indicated we might need to increase the limits used due to the restrictive nature of our current list of banks and building societies. This report recommends increasing the limits as follows:
    - ❖ The limit for each individual Money Market Fund is recommended to be increased from **£1.5m** to **£2m** (to be consistent with the limit for Banks and Building Societies).
    - ❖ To enable the use of more Money Market Funds, the "Group Limit" for Money Market Funds is recommended for increase from **£4m** to **£10m**.
    - ❖ The upper limit for variable rate exposure (Prudential Indicator number 10) will also need to increase from **50%** to **75%** because the rates for Money Market Funds are set on a daily basis and are therefore classified as variable rate investments. The increase in this Prudential Indicator will also enable us to deposit more funds in other variable rate instruments. This will provide the Council with additional flexibility within our limits to enable us to take account of likely future interest rate increases.

2.7 Treasury Management Practices (TMPs) and Prudential Indicators

- The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that Councils adopt all of Treasury Management Practices (TMPs) of the Treasury Management Code.
- This Council formally adopted the TMPs in its meeting on 25 February 2003. The Council's Treasury Management Practices are provided at **APPENDIX F**.
- The Prudential Indicators are shown in detail at **APPENDIX G**, and in summary in the Financial Implications Section of this Report.

3. Community Benefits

3.1 Management of the Council's resources is essential in order to ensure economical and efficient delivery of Council services.

4. Recommendation

4.1 To consider the report and provide views to Cabinet.

5. Financial Implications

5.1 The Prudential Indicators are shown in detail at **APPENDIX G** and are summarised below:

Capital Expenditure - The projected capital expenditure is expected to be:

Capital expenditure	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Budget £m	2012/13 Budget £m	2013/14 Budget £m
Total	8.090	10.936	10.570	3.329	3.332	1.823

Debt Requirement - Capital expenditure programme financed directly (through Government Grants, capital receipts etc.) does not increase the Capital Financing Requirement. Any Unfinanced spend will increase the Council's external borrowing requirement (its Capital Financing Requirement – CFR).

Capital Financing Requirement	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Budget £m	2012/13 Budget £m	2013/14 Budget £m
Total	3.537	3.766	1.487	1.037	0.605	0.364

Against this borrowing need (the CFR), the Council's expected external debt positions for each year (the Operational Boundary), and the maximum amount it could borrow (the Authorised Limit) are:

External Debt	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Budget £m	2012/13 Budget £m	2013/14 Budget £m
Authorised limit	13.914	14.850	11.849	12.113	12.365	12.662
Operational boundary	6.253	7.189	2.987	2.981	2.948	2.948

The total Revenue impact of the new schemes being approved as part of this budgetary cycle on Council Tax levels are expected to be:

Incremental impact of capital investment decisions on:	2010/11 Original £	2010/11 Approved £	2010/11 Revised £	2011/12 Budget £	2012/13 Budget £	2013/14 Budget £
Band D Council Tax	6.60	7.31	0	0	0	0

Investments – The resources applied to finance the Capital spend above is one of the elements which influence the overall resources of the Council. The expected position of Council's year-end resources (balances, capital receipts, etc), is shown below supplemented with the expected cash flow position. This provides an overall estimate of the year-end investment position. The prudential indicator limiting longer term investments are also shown, which is designed to reduce the Council's risk to adverse cash flow risk and counterparty risk.

Council's Year End Resources	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Budget £m	2012/13 Budget £m	2013/14 Budget £m
Balances & Reserves	-5.738	-5.738	-5.937	-6.602	3.911	3.143
Total Investments	9.395	9.278	8.506	8.743	5.783	4.860
Principal sums invested > 364 days	2.300	2.300	2.300	2.100	1.400	1.200

6. Strategic Plan Implications

6.1 The Treasury Management Activity underpins the financial resources available to support the priorities and delivery outcomes of the Strategic Plan.

7. Sustainability and Climate Change Issues

7.1 The Council does not plan to undertake borrowing to fund its planned Capital Programme.

8. Human Rights Issues

8.1 None

9. Crime and Community Safety Issues

9.1 None

10. Risk Management Issues

Risk	Likelihood / Impact	Risk Category	Countermeasure	Responsibility
Counterparty default	Medium / High	Financial	Investments are restricted to those organisations with the lowest credit risk: a) The Debt Management Agency Deposit Facility. b) Treasury Bills. c) Money Market Funds with an AAA rating. d) Deposits with other Local Authorities. e) Business Reserve and Term Deposits with a long term credit rating of A+ and have access to the Government's Credit Guarantee Scheme. As conditions in the Financial Sector improve, we may diversify the counterparty list based on our advisor's recommendations.	Director of Finance, Revenues & Benefits
Adverse Interest Rate fluctuations	Low / Low	Financial	The budget for investment income will be monitored as part of the Council's budget monitoring procedures.	Director of Finance, Revenues & Benefits
Actual cash flows are different to those that are planned	Low / High	Financial	The Council maintains a comprehensive cash flow model that is updated on a daily basis to reflect both actual and planned cash flows. An element of the Council's investment portfolio will be invested in call accounts.	Director of Finance, Revenues & Benefits
Planned capital receipts are not received	Medium / High	Financial	The budget for capital receipts will be monitored as part of the Council's budget monitoring procedures.	Director of Finance, Revenues & Benefits

Background Documents:

The Prudential Code for Capital Finance in Local Authorities
CIPFA Code of Practice for Treasury Management in the Public Services
Treasury Management Strategy Report 2010/11 to 2014/15 Report to Cabinet 9th February 2010
Chasewater Dam – Appointing a Contractor Report to Cabinet 4th May 2010
The Half Year Report on Treasury Management Services and Projected Prudential Indicators 2010/11 Report to Cabinet on 2nd November 2010

Cash Flow Forecast for 2011/12

Investments at 31 December 2010

The table below shows a breakdown of our investments as at the end of the 3rd Quarter using the Lowest Common Denominator credit rating as a guide to the quality of the investment counterparty.

Counterparty	Principal £m	Matures	Days to Maturity	Rate	Credit Rating	Foreign Parent
Money Market Funds						
Standard Life	0.120	01-Jan-11	Instant Access	0.62%	AAA	N/a
Other Counterparties						
Barclays Bank	1.000	20-Jul-11	201	1.41%	AA-	No
Brent Council	4.250	10-Feb-11	41	0.45%	AAA	No
Lloyds TSB	2.000	20-Jul-11	201	1.95%	A+	No
Sheffield City Council	2.800	06-Jan-11	6	0.35%	AAA	No
Eastleigh Borough Council	1.000	06-Jan-11	6	0.35%	AAA	No
Santander	2.000	17-Jan-11	17	1.12%	AA-	Yes
Yorkshire Bank (Clydesdale)	0.400	15-Jan-11	15	0.75%	A+	Yes
Clydesdale Bank	1.600	28-Feb-11	59	1.01%	A+	Yes
Nationwide	2.000	08-Mar-11	67	0.98%	A+	No
Barclays Bank	1.000	11-May-11	131	1.22%	AA-	No
Bank of Scotland	0.975	01-Jan-11	Instant Access	0.75%	A+	No
Royal Bank of Scotland	2.000	01-Jan-11	Instant Access	0.80%	A+	No
Total	**£21.145m**					

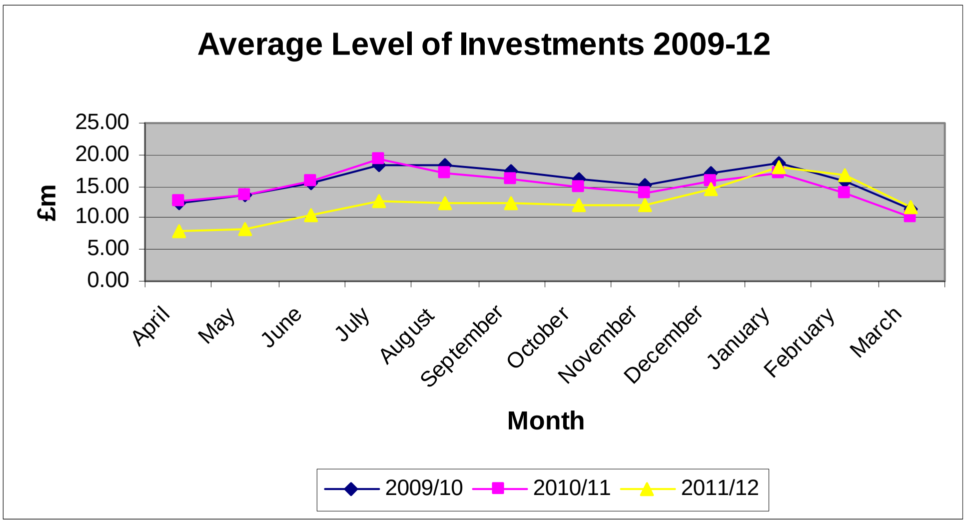
The aim for the risk status of our portfolio is **A+** or a higher credit rating. This reflects our current investment approach with the main focus on security and the safe return of our investments. Our risk rating at 31st December 2010 had a more secure risk status of **AA-** based on the length of the investment and **AA** based on the value of the investment.

Detailed Cash flow for 2011/12

2011/12 (£m)													
Detail	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Income													
Council Tax and NNDR Income	-8.72	-7.99	-7.94	-7.95	-8.42	-8.07	-8.41	-8.38	-8.40	-8.45	-1.75	-1.11	-85.59
Benefit Grant	-1.97	-1.97	-2.59	-1.98	-1.97	-1.97	-1.45	-1.81	-1.81	-1.81	-1.81	-1.81	-22.95
Net Revenue Income	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-0.32	-3.84
Revenue Grant	-0.79	-0.36	-0.36	-0.36	-0.36	-0.36	-0.36	-0.36	-0.36	-0.36	-0.38	-0.29	-4.70
Capital Income	-0.07	-0.07	-0.07	-0.07	-0.07	-0.91	-0.07	-0.07	-0.07	-2.37	-0.07	-0.07	-3.98
Expenditure													
Capital Spend	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	0.28	3.36
Benefit Payments	1.09	1.37	1.63	1.59	1.49	1.60	1.17	1.09	1.09	1.90	1.09	1.09	16.20
Employees	1.22	1.17	1.22	1.16	1.20	1.22	1.20	1.26	1.32	1.28	1.28	1.35	14.88
NNDR Pool	2.39	3.24	3.24	3.24	3.24	3.24	3.24	3.24	3.24	3.24	0.68	1.88	34.11
Precepts	6.14	5.00	0.00	5.00	5.00	5.33	5.00	5.00	0.00	5.00	5.00	5.00	51.47
CASHFLOW	-0.75	0.35	-4.91	0.59	0.07	0.04	0.28	-0.07	-5.03	-1.61	4.00	6.02	-1.02
Average level of investments	8.00	8.21	10.50	12.66	12.33	12.29	12.14	12.05	14.61	17.94	16.76	11.75	

Average Level of Investments 2009-12

The graph below shows the actual trend of average investment levels in 2009/10 together with projected levels for 2010/11 and 2011/12. The level of our investments is reducing due to the use of reserves to support our Revenue Budget together with the funding of our Capital Programme.



Investment Income and Borrowing Cost Budgets for 2011/12

Based on the cash flow forecast on the previous page, the estimate for interest payments in 2011/12 is **£0.013m** and for interest receipts is **£0.133m**.

In terms of interest receipts, there are two key risks / sensitivities:

a) The interest rate receivable.
b) The amount of money we have available to invest.

The table below shows what the Treasury Management Investment Income budget for 2011/12 would be if we used different interest rates and amounts of money available.

Interest Rate	**Average Investment Balances £000s**				
	+£1m	**+£2m**	**+£3m**	**+£4m**	**+£5m**
Current Estimate	142	152	162	171	181
+0.50%	197	211	224	238	251

APPENDIX B

Treasury Management Strategy 2011-14

Balance Sheet Projections 2011-14

The Balance Sheet projections, based on the current Revenue Budget and Capital Programme, are set out below:

Balance	31 Mar 2010 Actual £m	31 Mar 2010 IFRS £m	31 Mar 2011 Estimate £m	31 Mar 2012 Estimate £m	31 Mar 2013 Estimate £m	31 Mar 2014 Estimate £m
1. Fixed Assets	43.111	43.929	49.390	44.035	42.831	42.274
4. Long Term Debtors	0.065	0.065	0.063	0.061	0.059	0.057
4. Current Debtors (including accrued interest)	8.225	8.225	3.654	3.244	3.213	3.213
4. Bank	-0.128	0	0	0	0	0
2. Investments (excluding accrued interest)	9.545	9.417	8.506	8.743	5.783	4.860
4. Current Liabilities (exc Borrowing Element)	-4.816	-5.017	-5.006	-5.006	-5.006	-5.006
3. Long Term Creditors – Finance Leases	-0.232	-1.908	-1.448	-1.003	-0.601	-0.361
4. Long Term Creditors – Section 106	-1.537	-1.537	-0.473	-0.384	-0.255	-0.099
3. Long Term Creditors – Borrowing	-0.045	-0.045	-0.039	-0.033	0	0
4. Provisions	-0.079	-0.079	-0.079	-0.079	-0.079	-0.079
4. Unapplied Grants, Contributions & Section 106	-2.618	-2.618	-0.920	-0.172	-0.004	-0.004
1. Deferred Capital Grants & Contributions	-7.162	0	0	0	0	0
4. Pension Scheme	-36.373	-36.373	-36.373	-36.373	-36.373	-36.373
1. Deferred Income	0	-0.690	-0.679	-0.668	-0.657	-0.646
Total Assets less Liabilities	**£7.956m**	**£13.369m**	**£16.597m**	**£12.366m**	**£8.912m**	**£7.837m**

1. Revaluation Reserve	1.900	1.900	1.900	1.898	1.898	1.898
1. Capital Adjustment Account	33.202	38.816	45.324	40.432	39.671	39.366
4. Deferred Credits	0.012	0.012	0.010	0.008	0.006	0.004
4. Benefits Payable During Employment	0	-0.201	-0.201	-0.201	-0.201	-0.201
4. Pension Scheme	-36.373	-36.373	-36.373	-36.373	-36.373	-36.373
5. Usable Capital Receipts (***)	2.445	2.445	1.706	3.010	0.350	0
5. Burntwood Leisure Centre Sinking Fund	0.739	0.739	0.537	0.425	0.234	0
5. Burntwood Synthetic Pitch Sinking Fund	0.029	0.029	0.029	0.029	0.029	0
5. City Centre Redevelopment Sinking Fund	0.025	0.025	0.025	0.025	0.025	0.025
5. King Edwards Leisure Centre Sinking Fund	0.031	0.031	0.031	0.031	0.031	0
5. Lombard Street Car Park Sinking Fund	0.017	0.017	0.017	0.017	0.017	0.017
5. Elections	0.105	0.105	0.105	0	0.039	0.078
5. Public Open Spaces	0.007	0.007	0.007	0.007	0.007	0.007
5. Three Spires Multi Storey Reserve	1.447	1.447	0.992	1.148	1.304	1.141
5. Earmarked Reserves	1.020	1.020	0.985	0.925	0.925	0.925
5. Grant Aid	0.035	0.035	0.035	0.035	0	0
5. Depot Relocation	0.050	0.050	0	0	0	0
5. Collection fund	-0.056	-0.056	-0.050	-0.050	-0.050	-0.050
5. General Fund Balance	3.321	3.321	1.518	1.000	1.000	1.000
Total Equity	**£7.956m**	**£13.369m**	**£16.597m**	**£12.366m**	**£8.912m**	**£7.837m**

Where information for projections is not available, the actual level has been maintained for all years – IFRS adjustments are subject to External Audit. *** - Assumes receipt of **£2.3m** in relation to the Friarsgate Garage in January 2012.

Balance Sheet Summary

1. Capital Financing Requirement	0.847	2.523	1.487	1.037	0.605	0.364
2. Investments	9.545	9.417	8.506	8.743	5.783	4.860
3. Long Term Borrowing and Finance Leases	-0.271	-1.953	-1.487	-1.036	-0.602	-0.361
4. Net Creditors	-0.906	-0.772	-2.568	-2.142	-1.875	-1.720
5. Balances and Reserves	-9.215	-9.215	-5.937	-6.602	-3.911	-3.143

Borrowing Requirement and Strategy

We finance our capital spend from a variety of sources including capital receipts, revenue and grants and contributions (internal sources). Any capital spend we do not fund from these sources increases our underlying need to borrow for capital purposes (the Capital Financing Requirement (CFR)).

The Capital Financing Requirement together with the level of our Balances and Reserves (B&R) are the core drivers of Treasury Management Activity. To ensure that this expenditure will ultimately be financed, we are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year. Capital Expenditure that is not financed from internal resources will increase the CFR and this will in turn produce an increased requirement to charge MRP in the Revenue Account.

The table below indicates when the Council would need to borrow to fund its Capital Programme based on our Balance Sheet projections (this includes IFRS adjustments).

31 Mar 2010 Actual £m	Details	31 Mar 2011 Estimate £m	31 Mar 2012 Estimate £m	31 Mar 2013 Estimate £m	31 Mar 2014 Estimate £m
0.847	The amount of our capital spend that is not financed from capital receipts, revenue, grants and contributions (Capital Financing Requirement)	1.487	1.037	0.605	0.364
-0.271	Less: current funding provided through finance leases and long term borrowing	-1.487	-1.036	-0.602	-0.361
0.576	**Projected Borrowing Need**	**0**	**1**	**3**	**3**
-9.215	Less: the projected level of our balances and reserves we currently hold as investments	-5.937	-6.602	-3.911	-3.143
-£8.639	**Our net projected borrowing need (a positive figure indicates when we need to borrow)**	**-£5.937**	**-£6.601**	**-£3.908**	**-£3.140**

The CFR represents the level of borrowing for Capital purposes and net physical external borrowing **should not** exceed the CFR other than for short-term cash flow requirements.

It is permissible under the Prudential Code to borrow in advance of need[1] up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related Capital Expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

The move to International Financial Reporting Standards (IFRS) has implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's leases against IFRS requirements has resulted in long-term assets and liabilities being brought onto the Council's Balance Sheet. The estimates for the CFR and Long Term Liabilities take into account such items and an allowance has been made in the projections and the Prudential Indicators for these transactions. This has meant that the Council's Affordable Borrowing Limit and Operational Boundary have increased to take account of these accounting changes.

[1] If we were going to spend £1m on a capital project in 2013/14 and we were going to fund this from external borrowing, we could borrow this £1m in 2012/13 and invest it until such time as we spend it in 2013/14.

Investment Policy and Strategy

Background

Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

Investment Policy

To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The CLG's recent Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in **APPENDICES D and E**.

The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Communities and Local Government's (CLG) Investment Guidance state that a specified investment is one made with a body or scheme of "high credit quality". The Council will continue to maintain a counterparty list based on these criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength such as:

- Credit Default Swaps (where quoted)
- Share Price (where quoted)
- Gross Domestic Product (GDP); Net debt as a Percentage of GDP
- Sovereign Support Mechanisms / Potential Support from well resourced parent institutions.
- Macro economic indicators
- Corporate developments and information in the general and financial media

The CLG's guidance on Local Government investments recommends that the Investment Strategy should set out the procedures for determining the maximum periods for which funds may be prudently committed. Such decisions will be based on an assessment of the Authority's Balance Sheet position with the limit being set in Prudential Indicator 12 – Upper Limit for total principal sums invested over 364 days.

The CLG's Guidance on Local Government investments recommend that the Strategy should state the Authority's policies on investing money borrowed in advance of spending needs. This statement should identify any measures to minimise such investments, including any limits on:

- Amounts borrowed.
- Periods between borrowing and expenditure.

This statement should also comment on the management of risks, including the risk of loss of the borrowed capital and the risk associated with interest rate charges.

Limits on the amounts borrowed in advance of need are identified in the table on page 11 and in the Prudential Indicators shown in **APPENDIX G** although we plan to undertake no long term external borrowing at this time. This also sets the periods between borrowing and expenditure. The management of risks, including the risk of loss of the borrowed capital are identical to all forms of investment as set out in this Strategy. The risk associated with interest rate changes is based on the interest rate forecast at 3.4 and the current cost of carry (the difference between what we earn from investments and what we pay for borrowing).

The Council's investments as at 31st December 2010 are presented at **APPENDIX A**.

Investment Strategy

The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is a key support in the Council's budget.

The UK Bank Rate has been maintained at 0.5% since March 2009. **Short-term money market rates are likely to remain at very low levels, which will have a significant impact on investment income**. The Council's strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies.

The Director of Finance, Revenues and Benefits, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to future Cabinet meetings.

Investments managed in-house:

The Council's shorter-term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates.

In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office.

Currently the Council has restricted its investment activity to:

- The Debt Management Agency Deposit Facility (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that the Council's capital is secure)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- Deposits with other local authorities
- Business reserve accounts and term deposits. *These have been primarily restricted to UK institutions that are rated at least A+ long term (or equivalent), and had access to the UK Government's 2008 Credit Guarantee Scheme (CGS)*[2]

However, this report recommends some changes to its Specified Investments and their Limits. Specified Investments are set out in **APPENDIX D.**

Balanced Budget Requirement

The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a Balanced Budget.

Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

Treasury activity is monitored daily and reported internally to the Financial Services Manager. The Financial Services Manager will monitor the Prudential Indicators through the year.

The Director of Finance, Revenues and Benefits will report to the Cabinet on treasury management activity / performance as follows:

(a) Quarterly investment and borrowing activity as part of the Performance against the Financial Strategy.
(b) Half yearly against the Treasury Management Strategy approved for the year.
(c) An outturn report on its treasury activity no later than 30th September after the financial year-end.
(d) Strategic (Overview and Scrutiny) Committee will be responsible for the Scrutiny of treasury management activity and practices.

[2] Eligible Institutions can issue new guaranteed debt under the CGS until 28th February 2010, after which only existing guaranteed debt can be rolled over until 10th April 2012, and one third until 9th April 2014.

Other items

Member Training

CIPFA's revised Code requires the Director of Finance, Revenues and Benefits to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The Council's approach is:

- To identify Members who require training.
- To assess the level of training required and to procure training from an external organisation with expertise in this area.
- To monitor the ongoing training needs of Members based on legislative, regulatory and best practice requirements.

Investment Consultants

The CLG's revisions to its guidance on Local Government investments recommend that the Investment Strategy should provide information on the use of external advisors. The Council's policy is:

- To use external advisors to provide advice and guidance in relation to the areas covered within the Treasury Management Strategy Statement such as capital spend and funding, Balance Sheet projections, Prudential Indicators, Investment Guidance and assistance in assessing the impact of Legislative and Regulatory changes on the Council's budgets and policies.
- The quality of this service is controlled through a regular market testing exercise (recently undertaken in June 2009) and through regular meetings with the advisors.

Publication

- The Council's Treasury Management Statement is published on the Council's website.

MRP Statement 2011/12

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. The Secretary of State has issued guidance on Minimum Revenue Provision and local authorities are required to "have regard" to such Guidance under Section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

The changes due to the 2009 SORP and IFRS have resulted in new assets and leases being brought onto the Balance Sheet. Therefore, the CFR has increased, and has lead to an increase in the MRP charge to revenue. MRP for these items will match the annual principal repayment for the associated deferred liability.

MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

The MRP Statement will be submitted to Council before the start of the 2011/12 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

The Council will apply Option 3 in respect of supported and unsupported capital expenditure and MRP in respect of leases brought on Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

Use of Specified and Non Specified Investments

Specified Investments identified for use by the Council

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a Local Authority in England, Wales and Scotland.
- the making of which is not defined as Capital Expenditure under Section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Council's use are:

- Deposits in the Debt Management Office's (DMO) Debt Management Account Deposit Facility
- Treasury Bills
- Deposits with UK local authorities
- Deposits with banks and building societies
- AAA-rated Money Market Funds (MMF) with a Constant Net Asset Value (CNAV)

For credit rated Bank and Building Society counterparties, the minimum criteria will be the short-term/long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings.

Agency	***Minimum Long Term Rating***	***Minimum Short Term Rating***
Fitch	*A+*	*F1*
Moody's	*A1*	*P-1*
Standard and Poors (S&P)	*A+*	*A-1*

For Money Market Fund counterparties, the highest rating assigned by the agency of Constant Net Asset Value (CNAV) funds is:

Agency	***Highest Rating***
Fitch	*AAAmmf (this is Fitch's revised rating scale and corresponds to the Agency's previous AAA/V1+ rating)*
Moody's	*Aaa/MR1+*
Standard and Poors (S&P)	*AAAm*

The Council will also take into account information on corporate developments and market sentiment towards investment counterparties.

Within the categories above, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies, which will be invested in these bodies. This criteria is:

- No more than **£3m** (Current Limit is **£4m**) with one counterparty, including any subsidiaries, at the time the investment is undertaken known as the "group limit".
- No more than **£10m** (Current limit is **£6m**) for deposits with AAA rated Money Market Funds.
- The Sovereign Limit for the UK will be **100%**. At present we do not plan to make any investments with Non UK banks and Building Societies.

New specified investments will be made within the following limits:

Instrument	Country	Counterparty	Current Limit £m	Recommended Limit £m
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	No limit
Treasury Bills	UK	Debt Management Office (DMO)	New Instrument	No Limit
Term Deposits	UK	Other UK Local Authorities	No limit	No limit
Term Deposits/Call Accounts	UK	Santander UK Plc (formerly Abbey National Plc)	£3m	£2m
Term Deposits/Call Accounts	UK	Bank of Scotland/Lloyds	£3m	£2m
Term Deposits/Call Accounts	UK	Barclays	£3m	£2m
Term Deposits/Call Accounts	UK	Clydesdale	£3m	£2m
Term Deposits/Call Accounts	UK	HSBC	£3m	£2m
Term Deposits/Call Accounts	UK	Nationwide	£3m	£2m
Term Deposits/Call Accounts	UK	Royal Bank of Scotland	£3m	£2m
Term Deposits/Call Accounts	UK	National Westminster Bank	£0.1m	£2m
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£0	£2m
AAA rated Money Market Funds (each Fund)	UK/Ireland/ Luxembourg	CNAV MMFs	£1.5m	£2m

Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	Maximum maturity	**Current Limit £m**	**Recommended Limit £m**
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	2 yrs	£2.3m	£2.1m

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

For credit rated counterparties, the minimum criteria will be the short-term / long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings for investments between 1 and 2 years are:

Agency	***Minimum Long Term Rating***	***Minimum Short Term Rating***
Fitch	*AA-*	*F1+*
Moody's	*Aa3*	*P-1*
Standard and Poors (S&P)	*AA-*	*A-1+*

Within the categories above, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies, which will be invested in these bodies. This criteria is:

- No more than **£3m** (Current Limit is £4m) with one counterparty, including any subsidiaries, at the time the investment is undertaken known as the "group limit".
- The Sovereign Limit for the UK will be **100%.** At present we do not plan to make any investments with Non UK banks and Building Societies.

APPENDIX F

TREASURY MANAGEMENT PRACTICES[3]

TMP1

RISK MANAGEMENT

General Statement

The Director of Finance, Revenues and Benefits will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements.* In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out in the Treasury Management Manual.

1 **Credit and Counterparty Risk Management**

This organisation regards a key objective of its treasury management activities to be the security of the principal sum it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments methods and techniques* and listed in the schedule to this document. It also recognises the need to have and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow or with whom it may enter into other financing arrangements.

2 **Liquidity Risk Management**

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/services objectives.

This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current Capital Programme or to finance future debt maturities.

3 **Interest Rate Risk Management**

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements*.

4 **Exchange Risk Management**

It will manage its exposure to fluctuations in exchange rates so as to minimize any detrimental impact on its budgeted income/expenditure levels.

[3] These are the Treasury Management Practices and there is a more a detailed procedure manual in the Finance Office.

5 **Refinancing Risk Management**

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardize achievement of the above.

6 **Legal and Regulatory Risk Management**

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimize the risk of these impacting adversely on the organisation.

7 **Fraud, Error and Corruption and Contingency Management**

This organisation will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures and will maintain effective contingency management arrangements, to these ends.

8 **Market Risk Management**

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2

PERFORMANCE MANAGEMENT

This organisation is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

TMP3

DECISION-MAKING AND ANALYSIS

This organisation will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the Treasury Management Manual.

TMP4

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Manual, and within the limits and parameters defined in TMP1 *Risk Management*.

TMP5

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

This organisation considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

If and when this organisation intends, as a result of lack of resources or other circumstances to depart from these principles, the Director of Finance, Revenues and Benefits will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements* and the implications properly considered and evaluated.

The Director of Finance, Revenues and Benefits will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The Director of Finance, Revenues and Benefits will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the Treasury Management Manual.

The Director of Finance, Revenues and Benefits will ensure there is proper documentation for all deals and transactions and that procedures exist for the effective management of funds. The present arrangements are detailed in the Treasury Management Manual.

The delegations to the Director of Finance, Revenues and Benefits in respect of treasury management are set out in the Treasury Management Manual. The Director of Finance, Revenues and Benefits will fulfil such responsibilities in accordance with the organisation's policy statement and TMPs and, as a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6

REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

This organisation will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function. As a minimum the Cabinet will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executive in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Cabinet will receive regular monitoring reports on treasury management activities and risks.
The Strategic (Overview and Scrutiny) Committee, will have responsibility for the scrutiny of treasury management policies and practices.
Reports will be based around the capital / treasury management indicators included in Best Practice Guidance.

TMP7

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Director of Finance, Revenues and Benefits will prepare and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *risk management,* TMP2 *Performance measurement* and, TMP4 *Approved instruments, methods and techniques*. The Director of Finance, Revenues and Benefits will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements in force for the time being.

TMP8

CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Director of Finance, Revenues and Benefits and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared for the purposes of monitoring compliance with TMP1[1] *liquidity risk management.* The present arrangements for preparing cash flow projections and their form, are set out in the Treasury Management Manual.

TMP9

MONEY LAUNDERING

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Treasury Management Manual.

TMP10

TRAINING AND QUALIFICATIONS

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance, Revenues and Benefits will recommend and implement the necessary arrangements.

The Director of Finance, Revenues and Benefits will ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangement is detailed in the Treasury Management Manual.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

This organisation recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance, Revenues and Benefits and details of the current arrangements are set out in the Treasury Management Manual.

TMP12

CORPORATE GOVERNANCE

This organisation is committed to the pursuit of proper corporate governance throughout its businesses and services and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This organisation had adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the Treasury Management Manual are considered vital top the achievement of proper corporate governance in treasury management and the Director of Finance, Revenues and Benefits will monitor and if and when necessary report on the effectiveness of these arrangements.

PRUDENTIAL INDICATORS 2011-14

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. It should be noted that CIPFA undertook a review of the Code in early 2008 and issued revised Code in November 2009.

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, Revenues and Benefits reports that the Authority had no difficulty meeting this requirement in 2010/11, 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:

3.1 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.

Capital Financing	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Original £m	2012/13 Original £m	2013/14 Original £m
Fixed Assets	6.020	7.654	7.408	1.831	0.552	1.022
Capital Expenditure Funded from Revenue under Statute	2.070	3.282	3.162	1.498	2.780	0.801
Total	**£8.090m**	**£10.936m**	**£10.570m**	**£3.329m**	**£3.332m**	**£1.823m**

3.2 Capital expenditure will be financed as follows:

Capital Financing	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Original £m	2012/13 Original £m	2013/14 Original £m
Capital receipts	0.988	1.268	1.013	0.996	2.660	0.350
Burntwood Sinking Fund	0.175	0.202	0.202	0.112	0.191	0.234
Other Sinking Funds	0	0	0	0	0	0.060
Capital Grants and Contributions	4.100	5.810	8.709	2.161	0.481	0.482
Earmarked Reserves	0	0.611	0.611	0	0	0.319
Revenue contributions	0	0	0.035	0.060	0	0.378
Supported borrowing	0	0	0	0	0	0
Unsupported borrowing	2.827	3.045	0	0	0	0
Total	**£8.090m**	**£10.936m**	**£10.570m**	**£3.329m**	**£3.332m**	**£1.823m**

Note: the element to be financed from borrowing impacts on the movement in the Capital Financing Requirement.

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 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 (this indicator includes adjustments in relation to IFRS).

4.2 The ratio is based on costs net of investment income (where investment income exceeds the costs of borrowing, the indicator will be negative).

No. 2	Ratio of Financing Costs to Net Revenue Stream	2010/11 Original %	2010/11 Approved %	2010/11 Revised %	2011/12 Original %	2012/13 Original %	2013/14 Original %
	Non-HRA	2	2	0	0	-1	-2
	Total	**2%**	**2%**	**0%**	**0%**	**-1%**	**-2%**

5. Capital Financing Requirement:

5.1 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 it's 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.

No. 3	Capital Financing Requirement	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Original £m	2012/13 Original £m	2013/14 Original £m
	Non-HRA	3.537	3.766	1.487	1.037	0.605	0.364
	Total CFR	**£3.537m**	**£3.766m**	**£1.487m**	**£1.037m**	**£0.605m**	**£0.364m**

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

Capital Financing Requirement	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Original £m	2012/13 Original £m	2013/14 Original £m
Balance Brought Forward	0.839	0.847	0.847	1.487	1.037	0.605
International Financial Reporting Standards Adjustments – Finance Leases	0	0	1.676	0	0	0
Capital expenditure financed from borrowing (per 3.2)	2.827	3.045	0	0	0	0
Revenue provision for debt Redemption.[4]	-0.129	-0.126	-0.632	-0.057	-0.082	-0.069
International Financial Reporting Standards Adjustments – Provision for debt Redemption	0	0	-0.404	-0.393	-0.350	-0.172
Balance Carried Forward	**£3.537m**	**£3.766m**	**£1.487m**	**£1.037m**	**£0.605m**	**£0.364m**

[4] Includes Reimbursement for Chasewater Dam spend in 2010/11.

6. Actual External Debt:

6.1 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.

No. 4	Actual External Debt as at 31/03/2010	£m
	Borrowing – Long Term Element	0.039
	Borrowing – Short Term Element	0.006
	Other Long-term Liabilities (Finance Leases)	0.232
	Total	**£0.277m**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of Capital investment decisions on Council Tax 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.

No. 5	Incremental Impact of Capital Investment Decisions	2010/11 Original £	2010/11 Approved £	2010/11 Revised £	2011/12 Original £	2012/13 Original £	2013/14 Original £
	Increase in Band D Council Tax	£6.60	£7.31	£0	£0	£0	£0

8. Authorised Limit and Operational Boundary for External Debt:

8.1 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.

8.2 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.

8.3 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.

8.4 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).

No. 6	Authorised Limit for External Debt	2010/11 Original £m	2010/11 Approved £m	2010/11 Revised £m	2011/12 Original £m	2012/13 Original £m	2013/14 Original £m
	Borrowing	13.414	14.350	7.401	7.665	7.917	8.214
	Other Long-term Liabilities	0.500	0.500	3.176	3.569	3.919	4.114
	International Financial Reporting Standards Adjustments – Finance Leases	0	0	1.272	0.879	0.529	0.334
	Total	**£13.914m**	**£14.850m**	**£11.849m**	**£12.113m**	**£12.365m**	**£12.662m**

8.5 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.

8.6 The Director of Finance, Revenues and Benefits 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 Full Council.

No. 7	**Operational Boundary for External Debt**	**2010/11 Original £m**	**2010/11 Approved £m**	**2010/11 Revised £m**	**2011/12 Original £m**	**2012/13 Original £m**	**2013/14 Original £m**
	Borrowing	6.148	7.084	0.539	0.533	0.500	0.500
	Other Long-term Liabilities	0.105	0.105	1.176	1.569	1.919	2.114
	International Financial Reporting Standards Adjustments – Finance Leases	0	0	1.272	0.879	0.529	0.334
	Total	**£6.253m**	**£7.189m**	**£2.987m**	**£2.981m**	**£2.948m**	**£2.948m**

9 Adoption of the CIPFA Treasury Management Code:

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

No. 8	**Adoption of the CIPFA Code of Practice in Treasury Management**
	The Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 25th February 2003. The Council has incorporated any changes resulting from the CIPFA Treasury Management Code within its treasury policies, practices and procedures.

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

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

10.2 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.

No.	Interest Rate Exposures	2010/11 Original %	2010/11 Approved %	2010/11 Revised %	2011/12 Original %	2012/13 Original %	2013/14 Original %
Fixed Interest Rates							
9	Upper Limit for Fixed Interest Rate Exposure on Investments	-100	-100	-100	-100	-100	-100
	Upper Limit for Fixed Interest Rate Exposure on Debt	100	100	100	100	100	100
Net Fixed Exposure		**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Variable Interest Rates							
10	Upper Limit for Variable Rate Exposure on investments	-50	-50	-75	-75	-75	-75
	Upper Limit for Variable Interest Rate Exposure on Debt	30	30	30	30	30	30
Net Variable Exposure		**-20%**	**-20%**	**-45%**	**-45%**	**-45%**	**-45%**

11. Maturity Structure of Fixed Rate borrowing:

11.1 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.

11.2 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.

No. 11	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
	Under 12 months	0	100[5]
	12 months and within 24 months	0	20
	24 months and within 5 years	0	80
	5 years and within 10 years	0	40
	10 years and within 20 years	0	60
	20 years and within 30 years	0	40
	30 years and within 40 years	0	40
	40 years and within 50 years	0	40
	50 years and above	0	20

[5] This will include any short term fixed rate borrowing we need to undertake for cash flow purposes.

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

12.1 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.

No. 12	Upper Limit for total principal sums invested over 364 days	2010/11 Original £m	2010/11 Approved £m	2011/12 Original £m	2012/13 Original £m	2013/14 Original £m
		£2.30m	£2.30m	£2.10m	£1.40m	£1.20m