

APPENDIX H

PRUDENTIAL INDICATORS

1. Balance Sheet and Treasury Position

1.1. The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR)¹, together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
CFR	0	0	0	0.907
Balances & Reserves	5.208	3.190	2.203	2.079
Cumulative Net Borrowing Requirement/(Investments)	5.208	3.190	2.203	1.172

1.2. The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at **Appendix A**. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing² (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

1.3. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
General Fund	2.465	4.568	2.633	1.372	1.131

¹ The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

² This is a key indicator of prudence and should not exceed the Capital Financing Requirement. As the CFR represents the level of borrowing for capital purposes, and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.

Total	2.465	4.568	2.633	1.372	1.131
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1.4. Capital expenditure is expected to be financed as follows ³:

Capital Financing	2010/11 Approv ed £m	2010/1 1 Revis ed £m	2011/12 Estimat e £m	2012/13 Estimat e £m	2013/1 4 Estima te £m
Capital receipts	1.877	3.573	2.058	0.967	0.224
Government Grants and Contributions	0.588	0.995	0.485	0.405	
Major Repairs Allowance					
Revenue contributions			0.090		
Total Financing	2.465	4.568	2.633	1.372	
Supported borrowing					
Unsupported borrowing					0.907
Total Funding					0.907
Total Financing and Funding	2.465	4.5668	2.633	1.372	1.131

Incremental Impact of Capital Investment Decisions:

1.5. As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax. 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	2010/11 Approve d £	2011/12 Estimat e £	2012/13 Estimat e £	2013/14 Estimate £
Increase in Band D Council Tax	0.01	0.19	0.11	0.76

1.6. The estimate for interest receipts is £68k. The ratio of financing costs to the Council's net revenue stream⁴ 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 ratio is based on costs net of investment income.

Ratio of Financing	2010/11	2010/1	2011/1	2012/13	2013/14
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³ The element to be financed from borrowing impacts on the movement in the Capital Financing Requirement. An increase in the CFR in turn produces an increased requirement to charge MRP in the Revenue Account.

⁴ The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

Costs to Net Revenue Stream	Approved %	1 Revised %	2 Estimate %	Estimate %	Estimate %
General Fund	0.56	0.72	0.60	0.93	0.73

2. **Borrowing and Rescheduling Strategy**

2.1. The Council's balance of Actual External Debt at 31/03/10 (gross borrowing plus other long-term liabilities) is shown in Appendix A. This Prudential Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

2.2. The **Authorised Limit** 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 the Affordable Limit).

Authorised Limit for External Debt	2010/11 Approved £m	2010/11 1 Revised £m	2011/11 2 Estimate £m	2012/11 3 Estimate £m	2013/11 4 Estimate £m
Borrowing	6.5	2.5	3.5	4.5	5.5
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	6.5	2.5	3.5	4.5	5.5

2.3. 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.

Operational Boundary for External Debt	2010/11 Approved £m	2010/11 1 Revised £m	2011/11 2 Estimate £m	2012/11 3 Estimate £m	2013/11 4 Estimate £m
Borrowing	5.5	1.5	2.5	3.5	4.5
Other Long-term Liabilities	0.0	0.0	0.0	0.0	0.0
Total	5.5	1.5	2.5	3.5	4.5

2.4. The Executive Director of Finance and Resources 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 Cabinet.

3.5 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 reflect the Council's debt and investment activity which is of a short term nature and therefore has a natural exposure to interest rate changes.

	2010/11 Approved £m or %	2010/11 Revised £m or %	2011/12 Estimate £m or %	2012/13 Estimate £m or %	2013/14 Estimate £m or %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	100%	100%	100%	100%	100%

3.6 The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced.⁵ Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. Any borrowing undertaken by Bromsgrove District Council arises due to cash flow movements and is of a short term nature as such any borrowing undertaken will have a maturity date within 12 months.

Maturity structure of fixed rate borrowing	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0.00%	100.0%
12 months and within 24 months	0.00%	100.0%
24 months and within 5 years	0.00%	100.0%
5 years and above	0.00%	100.0%

4 Investment Policy and Strategy

⁵ This Prudential Indicator 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. The TM Code of Practice (Guidance Notes page 12) recommends that the Maturity Structure of fixed rate borrowing is to be broken down into several ranges if significant debt is held in periods in excess of 10 years.

- 4.1. Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.
- 4.2. 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.
- 4.3. 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 C and D. The Executive Director of Finance and Resources, 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 the Audit Board meeting.
- 4.4. Changes to investment strategy for 2011/12 include:
- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds
 - T-Bills
 - Local Authority Bills
 - Term deposits in Sweden
 - Maximum duration for new term deposits 2 years
- 4.5. The Council's current level of investments is presented at Appendix A.
- 4.6. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.
- 4.7. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)
- 4.8. The Council selects countries and the institutions within them (see Appendix C), for the counterparty list after analysis and careful monitoring of:
- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
 - Credit Default Swaps (where quoted)
 - GDP; Net Debt as a Percentage of GDP
 - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
 - Share Prices (where quoted)
 - Macro-economic indicators
 - Corporate developments, news and articles , market sentiment.

4.9. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

4.10. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

4.11. To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments could be considered against the context of the Council's balance sheet. The longer-term investments will be likely to include:

- Term Deposits with counterparties rated at least A+ (or equivalent)
- Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

4.12. The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. 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.

4.13.

No 12	Upper Limit for total principal sums invested over 364 days ⁶	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
		2.0	2.0	2.0	2.0	2.0

5. **Outlook for Interest Rates**

5.1 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix B. 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.

6. **Balanced Budget Requirement**

6.1. The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7. **2011/12 MRP Statement**⁷

⁶ Please make allowance within this Indicator for amounts invested for 1 year, i.e 365/366 days.

⁷ The Annual MRP Statement is subject to Council approval and may therefore be reported separately to Council instead of being incorporated into the TMSS.

7.1. 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. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2. The four MRP options available are:

Option 1: Regulatory Method

Option 2: CFR Method

Option 3: Asset Life Method

Option 4: Depreciation Method

7.3. The Council’s CFR at 31st March 2011 is expected to be nil in relation to capital expenditure funded from borrowing and therefore there is no requirement to charge MRP in 2011/12.

8. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

Treasury activity is monitored quarterly and reported internally to Cabinet and the Performance Monitoring Board. The Prudential Indicators will be monitored through the year by the Executive Director of Finance and Resources and reported as under :

The Executive Director of Finance and Resources will report to the Performance Monitoring Board and Cabinet on treasury management activity / performance and Performance Indicators as follows:

(a) Quarterly against the strategy approved for the year.

(b) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

(c) The Audit Board will be responsible for the scrutiny of treasury management activity and practices.

9. Other Items

Training

CIPFA’s Code of Practice requires the Executive Director of Finance and Resources 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.

Responsibility for the scrutiny of the Treasury Management function will rest with the Audit Board. The Executive Director of Finance and Resources will ensure that adequate training is provided for all relevant Members during the Financial Year.

Investment Consultants

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

The Council uses external consultants, Arlingclose for information and advice relating to investments. Updated information is received and monitoring undertaken by regular meetings and reports between the Executive Director of Finance and Resources and representatives from Arlingclose.