CITY COUNCIL – 12 SEPTEMBER 2011

REPORT OF THE DEPUTY LEADER

TREASURY MANAGEMENT 2011/12 STRATEGY – REVISED PRUDENTIAL INDICATORS

1 SUMMARY

1.1 This report details proposed changes to the treasury management Prudential Indicators for 2011/12 to 2013/14 which are required to be approved by a full meeting of the City Council.

2 RECOMMENDATIONS

2.1 It is recommended that the revisions to the treasury management Prudential Indicators and limits detailed in Appendix A are approved.

3 REASONS FOR RECOMMENDATIONS (INCLUDING OUTCOMES OF CONSULTATION)

3.1 To ensure compliance with the Code of Practice on Treasury Management in Public Services (the Code), adopted by the City Council in February 2002.

4 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

4.1 The approval of any revisions to the adopted Prudential Indicators is a requirement of the Code, so no other options are available for consideration.

5 BACKGROUND

5.1 Treasury management is the management of the Council's cash flows, including borrowings and investments. It is regulated by CIPFA's Treasury Management Code of Practice

5.2 Treasury management is subject to robust governance arrangements including legislation, government guidance, codes of practice and financial regulations. The approval of a strategy relating to treasury management, including a strategy for debt repayment and investment, is good practice and ensures that the City Council complies with the governance framework.

6 PRUDENTIAL INDICATORS

6.1 Prudential indicators for the forthcoming and following two financial years must be set before the beginning of that year. They may be revised at any time, following due process, with any changes to the current indicators being approved at a meeting of the full City Council.

6.2 The existing Prudential Indicators were approved by City Council on 7 March 2011 and cover financial years 2011/12 to 2013/14. These are now required to be changed as a consequence of proposed additional prudential borrowing in 2011/12 to finance new capital schemes, in particular for Phase 2 of the Nottingham Express Transit (NET) tram scheme.

The financing of NET Phase 2 is complex, with funding being provided from a number of sources, including Private Finance Initiative grant, existing earmarked reserves, prudential borrowing and an annual income stream from the introduction of a Workplace Parking Levy in Nottingham from 1 April 2012. It is currently proposed that prudential borrowing of up to £436m will be raised in the next 4 years to finance the termination of the existing concessionaire contract for Line One and for land acquisitions and other capital costs associated with Phase 2.

The existing Prudential Indicators need to be amended to reflect the above borrowing. In addition, the indicators have been updated to take into account:

- the final out-turn position at 31 March 2011;
- the addition of HRA capital expenditure in respect of the Decent Homes Standard, for which confirmation of central Government-supported borrowing has now been received;
- amendments to the notional debt figures in respect of on-balance sheet Private Finance Initiative schemes and finance leases;
- changes to the Authorised and Operational Debt limits, to allow for the 'externalisation' of debt, currently being met internally from cash surpluses.

Appendix A provides details of the impact of all the above changes. For 2011/12, the current indicators and the impact of the proposed changes have also been shown.

7 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS AND EQUALITY AND DIVERSITY IMPLICATIONS)

7.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is prepared for the treasury function. The adopted Risk Management Action Plan in respect of treasury management activity is included in the strategy documents.

The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The current rating for this risk is 6 (likelihood is rated unlikely, impact is rated moderate)

8 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

8.1 Treasury management working papers.

9 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

9.1 Executive Board report and minutes, 19 July 2011.

9.2 Audit Committee report and minutes, 29 July 2011.

COUNCILLOR GRAHAM CHAPMAN - DEPUTY LEADER

APPENDIX A

PRUDENTIAL INDICATORS 2011/12 – 2013/14					
	2011/12 Prev.Est £m	**2011/12 Rev. Est £m**	**2011/12 Change £m**	**2012/13 Rev. Est £m**	**2013/14 Rev. Est £m**
1. PRUDENCE INDICATORS					
i) Capital Expenditure					
General Fund	103.256	454.090	+350.834	77.901	47.457
HRA	25.332	55.300	+29.968	45.879	13.213
	128.588	**509.390**	**+380.802**	**123.780**	**60.670**
ii) CFR at 31 March					
General Fund	312.790	608.192	+295.402	623.223	628.349
HRA	321.075	341.683	+20.608	362.531	361.829
PFI and finance lease debt	259.196	233.776	-25.420	257.684	263.434
	893.061	**1,183.651**	**+290.590**	**1,243.438**	**1,253.612**
iii) External Debt at 31 March					
Borrowing	542.046	890.888	+348.842	926.767	931.191
Other (PFI debt)	259.196	233.776	-25.420	257.684	263.434
	801.242	**1,124.664**	**+323.422**	**1,184.451**	**1,194.625**
2. AFFORDABILITY INDICATORS					
i) Financing costs ratio					
General Fund	8.95%	8.95%	-	9.33%	9.57%
HRA	12.18%	12.18%	-	12.14%	12.19%
ii) Impact of capital investment decisions					
Council Tax Band D (per annum)	£0.00	£0.00	-	£0.00	£0.00
HRA rent (per week)	£0.00	£0.00	-	£0.00	£0.00
	£m	**£m**	**£m**	**£m**	**£m**
iii) Authorised limit for external debt	831.242	1,263.864	+432.622	1,303.651	1,313.825
iv) Operational Boundary for external debt	821.242	1,218.864	+397.622	1,278.651	1,288,825
3. TREASURY MANAGEMENT INDICATORS					
i) Limit on variable interest rates	0-50%	0-50%	-	0-50%	0-50%
ii) Limit on fixed interest rates	50-100%	50-100%		50-100%	50-100%
iii) Fixed Debt maturity structure					
- under 12 months	0-20%	0-20%	-	0-20%	0-20%
- 12 months to 2 years	0-20%	0-20%	-	0-20%	0-20%
- 2 to 5 years	0-25%	0-25%	-	0-25%	0-25%
- 5 to 10 years	0-25%	0-25%	-	0-25%	0-25%
- 10 to 25 years	0-50%	0-50%	-	0-50%	0-50%
- 25 to 40 years	0-25%	0-25%	-	0-25%	0-25%
- 40 years and above	0-75%	0-75%	-	0-75%	0-75%
iv) Sums invested for >364 days					
- in-house limit	£60m	£60m	-	£60m	£60m
v) Adoption of the *CIPFA Code of Practice*	Yes	Yes	Yes	Yes	Yes