APPENDIX B

PRUDENTIAL INDICATORS – RECOMMENDED FOR APPROVAL

PRUDENTIAL INDICATORS

1. Capital finance, borrowing and investment arrangements are brought together in a series of prudential indicators (estimates and limits) to give a general picture of the affordability, prudence and sustainability of financing activities. The indicators and limits are grouped into three broad areas: affordability, prudence and treasury management.

2. The indicators are drawn from the Prudential Code on Capital Finance for Local Authorities and the Treasury Management in the Public Services Code of Practice both published by CIPFA and updated in November 2009. The Local Government Act 2003 requires that councils have regard to these codes.

3. The 2009/10 indicators are shown as actuals, the 2010/11 show latest projections and the 2011/12 to 2013/14 are future estimates or limits. The indicators needing approval are the ones for 2011/12 to 2013/14. Estimates will be updated over the course of 2011/12 to reflect latest activity and developments in housing revenue account reforms.

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

INDICATOR ONE: ESTIMATES OF RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The financing ratio reflects financing costs arising from capital expenditure funded from borrowing and income from cash balances as a proportion of the net revenue stream. The ratio rises as interest income falls or debt costs rise and is also subject to movements in the net revenue stream. The different level of the HRA and GF ratios reflects the different way the two services are organised under law.

Financing Ratios	2009/10 Actual	2010/11 Latest Projection	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**
HRA	33.0%	33.0%	**33.0%**	**33.0%**	**33.0%**
GF	2.5%	3.3%	**3.3%**	**3.0%**	**2.5%**

INDICATOR TWO: ESTIMATES OF THE INCREMENTAL IMPACT OF CAPITAL INVESTMENT ON THE COUNCIL TAX AND HOUSING RENTS

Capital spend funded through un-supported borrowing may raise budgetary requirement and so place additional demand on council tax or rents. Currently no increase in budgetary requirement is proposed as a result of the capital programme and no increase in council tax or rents is being sought. The incremental increase in council tax or HRA rents recommended for approval are set out below.

Notional Rent or Council Tax Increases	2010/11	**2011/12**	**2012/13**	**2013/14**
Weekly housing rent increase as a result of capital programme	Nil	**Nil**	**Nil**	**Nil**
Council tax band D increase as a result of capital programme	Nil	**Nil**	**Nil**	**Nil**

CRITERIA TWO: PRUDENCE AND PRUDENTIAL INDICATORS FOR PRUDENCE

INDICATOR THREE: ESTIMATES OF CAPITAL EXPENDITURE

The actual capital expenditure for 2009/10 was £202m. The latest projections for 2010/11 include programme approvals and is subject to re-profiling and slippage. Estimates of future expenditure are set out below for approval.

Capital Expenditure	2009/10 Actual £m	2010/11 Latest Proj. £m	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
HRA	97	88	**99**	**92**	**86**
GF	105	151	**109**	**86**	**38**
Total	202	239	**208**	**178**	**124**

INDICATOR FOUR: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS.

The capital financing requirement (CFR) reflects the use of borrowing to pay for past capital expenditure or spend in the near future. Projections for 2010/11 include supported capital expenditure approvals issued by the government. Estimates of the CFR are set out below, for approval.

CFR	2009/10 Actual £m	2010/11 Latest Proj. £m	**2011/12 Estimate £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
HRA	639	651	**651**	**651**	**651**
General Fund	126	130	**126**	**122**	**118**
Total	765	781	**777**	**773**	**769**

The estimates will be affected by new accounting standards which require that funding through private finance initiatives and leases be reflected in the CFR if required. The actual CFR produced as part of work to complete the statement of accounts will pick up these changes.

INDICATOR FIVE: ACTUAL DEBT- THE AUTHORISED AND OPERATIONAL LIMITS

The authorised and operational limits are the limit on debt and long term liabilities outstanding on any one day. The lower limit is the operational boundary and takes account of ordinary activity. The authorised limit is the higher limit to accommodate unexpected borrowing that may be needed for very short periods. The total authorised limit is the limit councils have to determine under the Local Government Act 2003.

The average level of borrowing in any one year is usually close to the capital financing requirement, but it may be higher or lower depending on cash flow needs and timing of borrowing decisions. When rates are expected to rise it may be attractive to borrow ahead of future spending or maturing debt and there may also, in the future, be a benefit from borrowing additional funds prudentially over a short period to restructure debt by replacing high rate loans with lower rate ones. Reliance on short term cash balances to support long term capital funding is likely to be limited given variability of these balances and the attraction of stable long term borrowing.

The operational and authorised limits set out below for approval purely accommodate existing debts, new debts for capital spending and any temporary increases for prudent refinancing that may be carried out. The limit does not include any increase in long term liabilities arising from international accounting changes. Therefore in addition to approving the operational and authorised limit set out below, the council assembly is asked to agree as last year that the limits from 2011/12 onwards be treated as increased for any increase in long term liabilities that arises from accounting changes in leasing and private finance initiatives. The limits will also need revising down once it is clear how much the government intends to reduce HRA's debt by in its reforms to the housing revenue account.

Operational Boundary and Authorised Limits for External debt -	2009/10 Actual Max	2010/11 Latest Proj.	2010/11 Limit £m	**2011/12 Limit £m**	**2012/13 Limit £m**	**2013/14 Limit £m**
Operational Boundary for Debt						
Borrowing	762	762	860	850	850	840
Other long term liabilities	0	0	20	20	20	20
Total Operational (*)	762	762	880	**870**	**870**	**860**
Authorised Limit for Debt -						
Borrowing	762	762	890	890	890	880
Other long term liabilities	0	0	20	20	20	20
Total Authorised (*)	762	762	910	**910**	**910**	**900**

Note * - As last year, the limits from 2011/12 are treated as increased for any increase in long term liabilities arising from accounting changes in leasing and private finance initiatives. Under existing arrangements, the finance director is responsible for all executive, strategic and operational borrowing decisions and has discretion to allow activity to go outside the operational boundary, should it be prudent and justified, but nevertheless remain within the overall authorised limit. The finance director may also vary the mix between long term liabilities and debt should it to be prudent to do so.

CRITERIA THREE: TREASURY MANAGEMENT

INDICATOR SIX: ADOPTION OF THE CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT IN THE PUBLIC SERVICES

This indicator concerns adoption of Treasury Management in the Public Services Code of Practice issued by CIPFA and it is confirms that the latest version of the code published November 2009 was recommended for approval by council assembly at its meeting in February 2010.

INDICATOR SEVEN: INTEREST RATE EXPOSURES – FIXED
INDICATOR EIGHT: INTEREST RATE EXPOSURES - VARIABLE
INDICATOR NINE: MATURITIES

Council debt currently consists entirely of fixed rate loans, with very little falling for repayment over the next few years. However the proportion in fixed rates could change should financing conditions become favourable in the future. The fixed and variable rate limits draw on the authorised debt limit. The maturity limit reflects existing debt structure, with leeway to accommodate refinancing where prudent.

LIMITS ON FIXED AND VARIABLE RATES	2009/10 Maximum Actual £m	2010/11 Latest Projection £m	2010/11 Limit £m	**2011/12** **Limit** **£m**	**2012/13** **Limit** **£m**	**2013/14** **Limit** **£m**
Upper limit for fixed interest rate exposure	762	762	890	**890**	**890**	**880**
Upper limit for variable rate exposure	0	0	225	**225**	**225**	**220**

Maturity structure of fixed rate borrowing	2009/10 Actual	2010/11 Upper Limit	2010/11 Lower Limit	2010/11 Latest Projection	**2011/12 Upper Limit**	**2011/12 Lower Limit**
Under 12 months	0%	30%	0%	0%	**30%**	**0%**
12 months and within 24 months	0%	30%	0%	0%	**30%**	**0%**
24 months and within 5 years	4%	60%	0%	18%	**60%**	**0%**
5 years and within 10 years	26%	80%	0%	12%	**80%**	**0%**
10 years and above in each 10 year period	70%	100%	0%	70%	**100%**	**0%**

INDICATOR TEN: TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS.

The council's cash balances are invested across a number of counterparties which can include the Government, local authorities, and large high rated banks and building societies. Exposure to investments beyond one year raises investment options and helps raise returns. However, as returns can be vulnerable to unexpected market volatility, limits are placed on such exposure. The 2011/12 upper limit on exposure beyond one year recommended for approvals are shown below.

Upper limit on investments greater than 1 yr	2009/10 Actual	2010/11 Latest Position	2010/11 Limit	**2011/12**
Upper limit / Actual	Actual max exposure 20% of investments greater than 1 year Overall maximum average maturity 8 months Longest investment 8 years	16% of investments greater than 1 year Overall maximum average maturity 7 months Longest investment 5 yrs	Up to 50% of investments greater than 1 year Overall average maturity 3 years, but any one investment may be longer as referred to in the Annual Investment Strategy	**Up to 50% of investments greater than 1 year** **Overall average maturity 3 years, but any one investment may be longer as referred to in the Annual Investment Strategy**