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, capital expenditure 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 plus Guidance, published by CIPFA and updated in November 2011. The Local Government Act 2003 requires that councils have regard to these codes.

3. The 2010/11 indicators are shown as actuals, the latest projections are in the 2011/12 column and future estimates or limits are under the 2012/13 to 2014/15 columns. The indicators needing approval are the ones for 2012/13 to 2014/15. They do not affect existing budgets and approval will enable the finance director to carry out his responsibilities in this area. Estimates will be updated over the course of 2012/13 to reflect latest activity and developments in housing revenue account (HRA) self-financing.

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

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

The financing ratio is the cost of financing capital expenditure (including PFI and leases) net of cash income as a proportion of the net revenue stream. The 2011 update to the Prudential Code gave new guidance on calculating the HRA financing ratio. It is now based on HRA rental income rather than a collection of items from HRA regulations. The 2010/11 actuals and subsequent years projections and estimates are shown using the new basis. The drop in the HRA ratio between 2011/12 and 2012/13 reflects a fall in debt costs following HRA self-financing and the rise in GF ratio over the same period arises from PFI funding. The indicators do not affect budgets. The latest projections and estimates for both the GF and HRA requiring approval are set out below.

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Financing Ratios	2010/11 Actual	2011/12 Latest Projection	**2012/13 Estimate**	**2013/14 Estimate**	**2014/15 Estimate**
HRA	29.0%	27.0%	**17.0%**	**17.0%**	**16.0%**
GF	4.0%	5.0%	**8.0%**	**7.0%**	**7.0%**

INDICATOR TWO: ESTIMATES OF THE INCREMENTAL IMPACT OF CAPITAL INVESTMENT ON THE COUNCIL TAX AND HOUSING 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 either. The incremental increase in council tax or HRA rents recommended for approval are set out below.

Notional Rent or Council Tax Increases	2011/12	**2012/13**	**2013/14**	**2014/15**
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: DEBT AND CAPITAL FINANCING REQUIREMENT

This indicator compares debt to the capital financing requirement (CFR), which is borrowing for capital plus long term liabilities like PFI and leases. Debt should not exceed the CFR over the medium term, but may do so over the short-term in the interest of prudent financing of capital expenditure and management of debt.

This indicator is met as actual debt currently stands at £762m, which is below the projected closing CFR for 2011/12 of £878m.

CRITERIA THREE: PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND TREASURY

INDICATOR FOUR: ESTIMATES OF CAPITAL EXPENDITURE

The actual capital expenditure for 2010/11 was £189m and includes leases, PFI funding for St Michaels school and funding for residential care homes built between 2002 and 2004 but which accounting rules now require be put on balance sheet. The latest projections for 2011/12 include programme approvals and are subject to re-profiling and slippage. Future PFI include funding for St Thomas the Apostle and Sacred Heart schools becoming operational in 2011/12 and 2014/15 respectively and the waste management facility at the Old Kent Road site which becomes operational in 2011/12. Estimates of future capital expenditure are set out below for approval.

Capital Expenditure	2010/11 Actual £m	2011/12 Latest Proj. £m	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
HRA	71	59	**111**	**85**	**75**
GF	118	186	**140**	**59**	**43**
Total	189	245	**251**	**144**	**118**

INDICATOR FIVE: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS.

The CFR reflects borrowing and long term liabilities (e.g. PFI and leases) to pay for past capital expenditure or spend in the near future. Estimates of the CFR are set out below, for approval.

CFR	2010/11 Actual £m	2011/12 Latest Proj. £m	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
HRA	650	650	**451**	**451**	**451**
General Fund	157	228	**216**	**206**	**215**
Total	807	878	**667**	**657**	**666**

INDICATOR SIX: HRA LIMIT ON INDEBTEDNESS

This is a new indicator and is the limit imposed by the Government on HRA debt under self-financing from 2012/13. The indebtedness limit indicated in the self-financing consultation issued in February 2012 is £577m.

INDICATOR SEVEN: 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. It is not intended for long 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, before PFI and leases, but 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. The increased sensitivity to interest rates from 2012 will need careful management and the finance director will keep under review options for hedging and mitigating risk, including using cash to manage debt costs ahead of refinancing with lower coupon long term loans.
The operational and authorised limits set out below for approval accommodate existing debts (including HRA debt), new debts for capital spending, PFI schemes and any temporary increases for prudent debt refinancing that may be carried out.

Operational Boundary and Authorised Limits for External debt -	2010/11 Actual Max	2011/12 Latest Proj.	2011/12 Limit £m	**2012/13 Limit £m**	**2013/14 Limit £m**	**2014/15 Limit £m**
Operational Boundary for Debt						
Borrowing	762	762	860	630	620	615
Other long term liabilities	25	101	101(*)	110	100	120
Total Operational (*)	787	863	961	**740**	**720**	**735**
Authorised Limit for Debt -						
Borrowing	762	762	890	655	650	645
Other long term liabilities	25	101	101(*)	115	105	125
Total Authorised (*)	787	863	991	**770**	**755**	**770**

Note * - The council assembly agreed last February that the limits from 2011/12 be treated as increased for increase in long term liabilities arising from accounting changes in leasing and PFI. These liabilities are estimated at £101m in 2011/12 and the limits for that year have been updated to reflect that. (The liabilities limit before the adjustment was £20m). As before, the finance director 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. In the event of an unexpected delay in HRA self-financing settlement, the authorised limit is treated as increased by £199m, the amount of the settlement.

INDICATOR EIGHT: GROSS AND NET DEBT

This is a new indicator and is about the upper limit on net debt (i.e. gross debt less investments) as a percentage of gross debt. The net debt is currently lower than the gross as the council's revenue balances, provisions and working capital are held in investments pending their application. To ensure the funds remain in tact and available when they are need, reliance on them to settle long term capital funding demands will be limited and the upper limit on net debt as a percentage of gross debt is 100%.

	2012/13 Limit £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Upper Limit on Net Debt as a % of Gross Debt	**100%**	**100%**	**100%**

INDICATOR NINE: 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. The council adopted the 2009 code at its meeting in February 2010. The 2011 code is an update and basic principles remain unchanged.

INDICATOR TEN: INTEREST RATE EXPOSURES – FIXED
INDICATOR ELEVEN: INTEREST RATE EXPOSURES - VARIABLE
INDICATOR TWELVE: 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	2010/11 Maximum Actual £m	2011/12 Latest Projection £m	2011/12 Limit £m	**2012/13 Limit £m**	**2013/14 Limit £m**	**2014/15 Limit £m**
Upper limit for fixed interest rate exposure	762	762	890	**655**	**650**	**645**
Upper limit for variable rate exposure	0	0	225	**165**	**165**	**160**

Maturity structure of fixed rate borrowing	2010/11 Actual	2011/12 Lower Limit	2011/12 Upper Limit	2011/12 Lower Limit	2011/12 Latest Projection	**2012/13 Upper Limit**	**2012/13 Lower Limit**
Under 12 months	0%	0%	30%	0%	0%	**30%**	**0%**
12 months and within 24 months	0%	0%	30%	0%	0%	**30%**	**0%**
24 months and within 5 years	18%	0%	60%	0%	29%	**60%**	**0%**
5 years and within 10 years	12%	0%	80%	0%	3%	**80%**	**0%**
10 years and above in each 10 year period	70%	0%	100%	0%	68%	**100%**	**0%**

INDICATOR THIRTEEN: 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 2012/13 upper limit on exposure beyond one year recommended for approval is shown below. Exposure will be subject to the annual investment strategy and the actual exposure will depend on market conditions and be within duration limits. Capital preservation will, as required under the strategy, remain a priority.

Upper limit on investments greater than 364 days	2010/11 Actual	2011/12 Latest Position	2011/12 Limit	**2012/13**
Upper limit / Actual	Actual max exposure 16% of investments greater than 364 days Overall maximum average maturity 7 months Longest investment 5 years	14% of investments greater than 364 days Overall maximum average maturity 7 months Longest investment 5 yrs	Up to 50% of investments greater than 364 days 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 364 days Overall average maturity 3 years, but any one investment may be longer as referred to in the Annual Investment Strategy