APPENDIX B

PRUDENTIAL INDICATORS

BACKGROUND

1. Capital finance, borrowing and investment arrangements are supported by a series of prudential indicators, 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.

PRUDENTIAL INDICATORS

2. The indicators are grouped into three broad areas: affordability and prudence, capital finance and treasury management. The 2012/13 indicators are shown as actuals, the latest projections are in the 2013/14 column and future estimates or limits are under the 2014/15 to 2016/17 columns. The indicators recommended for approval are the ones for 2014/15 to 2016/17. The indicators are of a technical nature and include a self imposed authorised limit on debt which the council assembly must determine each year. Approval will enable the strategic director of finance and corporate services to comply with the requirements of the 2003 Act and carry out his financial responsibilities in this area. Existing budgets take account of capital finance and treasury activities and the indicators themselves have no effect on those budgets.

INDICATORS ON AFFORDABILITY AND PRUDENCE

Indicator one: estimates of the ratio of financing costs to net revenue stream

3. The financing ratio is a technical measure of the cost of financing capital expenditure (including PFI and leases) net of cash income as a proportion of the net revenue stream. The estimated financing ratio from 2014/15 to 2016/17 for both the housing revenue account (HRA) and the General Fund recommended for approval are set out below. The HRA financing ratio is expected to decline from 2014/15 as existing high coupon maturing debt is replaced with new lower rate debt and the revenue stream, represented by rent income, rises. The General Fund ratio in 2013/14 includes the full year effects of 2012/13 capital financing and from 2014/15 the financing cost associated with the PFI funded Sacred Heart School. The General Fund ratio also reflects cuts in revenue grants from the government which affect the net revenue stream. The factors behind the variation in both the HRA and the General Fund financing ratio are reflected in existing budgets.

Financing Ratios	2012/13 Actual	2013/14 Projection	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
HRA	15.0%	15.0%	15.0%	14.0%	13.0%
GF	6.0%	7.0%	8.0%	9.0%	9.0%

Indicator two: estimates of the incremental impact of capital investment on the council tax and housing rents

4. This is a measure of the effect of capital spend proposals on the council tax and housing revenue account (HRA) rents. No increase in either is sought as a result of the programme and spend is managed within anticipated resources. The indicator on the incremental impact of capital expenditure on council tax and HRA rents recommended for approval are set out below.

Notional Rent or Council Tax Increases	2013/14	2014/15	2015/16	2016/17
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

INDICATORS ON CAPITAL FINANCE

Indicator three: debt and capital financing requirement

5. This indicator compares actual debt to the capital financing requirement (CFR), consisting of funding 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. Under this indicator the actual debt at 31 December 2013 stands at £555m and is below the projected closing CFR for 2013/14 (£840m) and for 2014/15 (£847m).

Indicator four: estimates of capital expenditure

6. The estimated capital expenditure for 2014/15 to 2016/17, drawing on latest monitoring, recommended for approval are set out below. Estimates will be updated over the course of 2014/15 to reflect spend profile. The 2013/14 HRA projection includes spend on the district heating network, supplying low carbon heating and hot water to housing estates.

Capital Expenditure	2012/13 Actual £m	2013/14 Projection £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
HRA	86	122	192	104	75
GF	262	74	147	28	39
Total	**348**	**196**	**339**	**132**	**114**

Indicator five: actual and estimates of capital financing requirements.

7. The capital financing requirement (CFR) reflects balances in borrowing and long term liabilities (PFI and leases) taken on to fund past or new capital spend. The General Fund CFR also reflects sums set-aside to reduce debt and liabilities. The HRA CFR will also reflect sums set-aside for debt repayment as they are made. Estimates of the CFR for 2014/15 to 2016/17 recommended for approval are set out below.

CFR At year end	2012/13 Actual £m	2013/14 Projection £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
HRA	451	456	455	455	455
General Fund	397	384	392	378	365
Total	**848**	**840**	**847**	**833**	**820**

INDICATORS ON TREASURY MANAGEMENT

Indicator six: HRA limit on indebtedness

8. The HRA limit on indebtedness is the limit imposed by the government on HRA debt under self-financing. The indebtedness limit from 2012/13 indicated in the self-financing determination issued in February 2012 is £577m. The actual HRA debt and long term liabilities at 31 December 2013 stands £455m.

Indicator seven: actual debt- the authorised limit and operational boundary

9. The authorised limit and operational boundary accomodate existing debts and long term liabilities (leases and PFI) outstanding on any one day. 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 on any one day depending on cash flow needs and timing of borrowing.

10. As well as accommodating existing debts and liabilities, the operational boundary includes flexibility to refinance debt or replace internal borrowing with external loans where prudent. The authorised limit is a higher limit with additional capacity to prudently raise debt temporarily should it be necessary within a risk controlled framework to protect the council's interests. Actual activity is subject to developments in funding markets and is carried out within existing financial delegation. The authorised limit and the operational boundary for 2014/15 to 2016/17 recommended for approval are set out below. The authorised limit is the total limit on borrowing and long term liabilities that local authorities have to determine under the Local Government Act 2003 and is some 10% above the CFR

Operational Boundary and Authorised Limits for External debt	2012/13 Actual Max	2013/14 Latest Proj Max.	2013/14 Limit £m	2014/15 Limit £m	2015/16 Limit £m	2016/17 Limit £m
Operational Boundary for Debt						
Borrowing	562	560	815	765	760	750
Other long term liabilities	107	98	115	125	120	115
Total Operational (*)	**669**	**658**	**930**	**890**	**880**	**865**
Authorised Limit for Debt -						
Borrowing	562	560	850	805	795	785
Other long term liabilities	107	98	120	130	125	120
Total Authorised (*)	**669**	**658**	**970**	**935**	**920**	**905**

Note * - As before, the strategic director of finance and corporate services shall have discretion to allow activity to go outside the operational boundary and vary the mix between long term liabilities and debt should it be prudent and justified. Activity must nevertheless remain within the overall authorised limit.

Indicator eight: gross and net debt

11. This is an indicator 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 revenue balances, provisions and working capital are held in investments. To ensure the funds are available when they are needed, the upper limit on net debt as a percentage of gross debt is 100%.

	2012/13 Max	2013/14 Max to Dec 2013	2013/14 Limit	2014/15 Limit	2015/16 Limit	2016/17 Limit
Upper Limit on Net Debt as a % of Gross Debt	68%	68%	100%	100%	100%	100%

Indicator nine: adoption of the cipfa code of practice on treasury management in the public services

12. This indicator concerns the adoption of the 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 and Indicator twelve: maturities

13. The fixed and variable rate limits draw on the authorised debt limit and the maturity limit accommodates existing debt. The 2014/15 to 2016/17 limits recommended for approval are set out below. The limits contain flexibility to carry out refinancing, including replacing internal borrowing and maturing debt with external fixed or variable rate borrowing, where prudent. The upper range on the maturity profile has been lowered and better reflects the attractiveness shorter maturity debt over very long maturity debt. Actual activity is subject to developments in funding markets and is only carried out within a risk controlled framework and existing financial delegation.

LIMITS ON FIXED AND VARIABLE RATES	2012/13 Maximum Actual £m	2013/14 Max to Dec 2013 £m	2013/14 Limit £m	2014/15 Limit £m	2015/16 Limit £m	2016/17 Limit £m
Upper limit for fixed interest rate exposure	562	560	850	805	795	785
Upper limit for variable rate exposure	0	0	215	200	200	195

Maturity structure of fixed rate borrowing at start of year	2013/14 Actual at start of year	2013/14 Lower Limit	2013/14 Upper Limit	2014/15 Lower Limit	2014/15 Upper Limit
Under 12 months	1%	0%	30%	0%	20%
12 months and within 24 months	6%	0%	30%	0%	20%
24 months and within 5 years	13%	0%	60%	0%	30%
5 years and within 10 years	12%	0%	80%	0%	40%
10 years and within 20 years	28%	0%	100%	0%	40%
20 years and within 30 years	6%	0%	100%	0%	40%
30 years and within 40 years	22%	0%	100%	0%	40%
40 years and within 50 years	12%	0%	100%	0%	40%

Indicator thirteen: total principal sums invested for periods longer than 364 days

14. Exposure to investments with a maturity beyond one year raises investment options and potential returns. However, as returns can be vulnerable to unexpected market volatility, limits are placed on such exposure. The 2014/15 upper limit on exposure beyond one year recommended for approval is shown below. Actual exposure will be subject to market developments and capital preservation will, as required under the annual investment strategy, remain a priority.

Upper limit on investments greater than 364 days	2012/13 Actual	2013/14 Latest Position	2013/14 Limit	2014/15 Limit
Upper limit / Actual	Actual max exposure15% of investments greater than 364 days Overall maximum average maturity 7 months Longest investment 5 years	15% 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