

## 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 2011. The Local Government Act 2003 requires that councils have regard to these codes.

### PRUDENTIAL INDICATORS

2. The prudential indicators are grouped into three broad areas: affordability and prudence, capital finance and treasury management. The 2014/15 indicators are shown as actuals, the latest current year projections are in the 2015/16 column and future estimates or limits are under the 2016/17 to 2018/19 columns. The indicators recommended for approval are the ones for 2016/17 to 2018/19. 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 governance 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

3. Indicator one: estimates of the ratio of financing costs to net revenue stream  
The financing ratio is a technical measure of the cost of financing capital expenditure (including PFI and leases) net of interest income as a proportion of revenue. Both the HRA and GF ratios include provisions to pare down financing liabilities.

Financing Ratios	2014/15 Actual	2015/16 Projection	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA	24%	17%	17%	17%	17%
GF	8%	8%	8%	8%	8%

5. Indicator two: estimates of the incremental impact of capital investment on the council tax and housing rents  
This is a measure of the effect of capital spend proposals on the council tax and HRA rents. No increase in either is sought as a result of the programme and spend is managed within anticipated resources.

Notional Rent or Council Tax Increases	2015/16	2016/17	2017/18	2018/19
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

6. The CFR is a measure of capital expenditure financed through borrowing and long term liabilities (e.g. PFI). The level of gross debt should normally not exceed the CFR except over a short period.
7. The maximum gross debt over the nine months into 2015/16 was £469m and remained below the £855m CFR on account of cash balances, internal borrowing and PFI transactions.

### Indicator four: estimates of capital expenditure

8. The estimated capital expenditure for 2016/17 to 2018/19 drawing on latest monitoring is set out below and will be updated over the course of 2016/17 as timing of spend and financing becomes more certain.

Capital Expenditure	2014/15 Actual £m	2015/16 Projection £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
HRA	169	266	257	163	152
GF	101	94	172	154	30
<b>Total £m</b>	<b>270</b>	<b>360</b>	<b>429</b>	<b>317</b>	<b>182</b>

### Indicator five: actual and estimates of capital financing requirements.

9. The capital financing requirement (CFR) reflects balances in borrowing and long term liabilities (e.g. PFI) to fund capital spend.

CFR At year end	2014/15 Actual £m	2015/16 Projection £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
HRA	401	418	551	564	564
General Fund	391	380	365	355	340
<b>Total</b>	<b>792</b>	<b>798</b>	<b>916</b>	<b>919</b>	<b>904</b>

## INDICATORS ON TREASURY MANAGEMENT

### Indicator six: HRA limit on indebtedness

10. This is a limit on HRA capital financed by debt and long term liabilities determined by the government. The indebtedness limit for 2016/17 is £577m (unchanged since 2012/13). The actual HRA debt and long term liabilities at 1 April 2015 stood at £401m and is expected to close the year at £418m.

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

11. These are limits the council determine to accommodate debt, internal borrowing and long term liabilities. The lower limit is the operational boundary and takes account of existing positions, debt repayments, replacement of internal borrowing and re-financing. The higher limit is the authorised limit and enables additional debt to be taken for very short periods in the interest of prudence within a risk controlled framework. The authorised limit from 2016/17 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 estimated CFR.

Operational Boundary and Authorised Limits for External debt	2014/15 Actual Max	2015/16 Latest Proj Max.	2015/16 Limit £m	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m
<b>Operational Boundary for Debt</b>						
Borrowing	475	469	705	780	765	745
Other long term liabilities	114	109	120	120	115	110
<b>Total Operational (*) £m</b>	<b>589</b>	<b>578</b>	<b>825</b>	<b>900</b>	<b>880</b>	<b>855</b>
<b>Authorised Limit for Debt -</b>						
Borrowing	475	469	740	815	800	780
Other long term liabilities	114	109	125	125	120	115
<b>Total Authorised (*) £m</b>	<b>589</b>	<b>578</b>	<b>865</b>	<b>940</b>	<b>920</b>	<b>895</b>

Note \* - As before, the strategic director of finance and governance 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. Activity must nevertheless remain within the overall authorised limit.

Indicator eight: gross and net debt

12. This is an indicator of 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%.

	2014/15 Max	2015/16 Max to Dec 2015	2015/16 Limit	2016/17 Limit	2017/18 Limit	2018/19 Limit
Upper Limit on Net Debt as a % of Gross Debt	65%	64%	100%	100%	100%	100%

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

13. 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.

Indicators ten to twelve: upper limits on fixed rates, upper limits on variable rates and maturity limits

14. The fixed and variable rate limits draw on the authorised debt limit and the maturity limit accommodates existing debt with flexibility to carry out refinancing, including replacing internal borrowing and maturing debt with external loans, where prudent. The upper maturity limits across maturity bands in 2016/17 are higher than the ones for the current year in view of growth in the capital financing requirement. Actual activity is subject to capital financing requirements and developments in funding markets and is only carried out within a risk controlled framework under existing financial delegation.

LIMITS ON FIXED AND VARIABLE RATES	2014/15 Maximum Actual £m	2015/16 Max to Dec 2015 £m	2015/16 Limit £m	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m
Upper limit for fixed interest rate exposure	475	475	740	815	800	780
Upper limit for variable rate exposure	0	0	185	205	200	195

Maturity structure of fixed rate borrowing at start of year	2015/16 Actual at start of year	2015/16 Lower Limit	2015/16 Upper Limit	2016/17 Lower Limit	2016/17 Upper Limit
Under 12 months	1%	0%	20%	0%	20%
12 months and within 24 months	1%	0%	20%	0%	20%
24 months and within 5 years	5%	0%	30%	0%	40%
5 years and within 10 years	19%	0%	40%	0%	60%
10 years and within 20 years	28%	0%	50%	0%	60%
20 years and within 30 years	6%	0%	50%	0%	60%
30 years and within 40 years	33%	0%	50%	0%	60%
40 years and within 50 years	7%	0%	50%	0%	60%

Indicator thirteen: total principal sums invested for periods longer than one year.

15. This indicator caps maximum exposure to longer investments whilst recognising that such investments can help secure additional yield within a risk controlled framework. From 2015/16 the overall average life of investments is limited to 2 years as referred to in the annual investment strategy and recent exposure has remained cautious in view of market volatility.

Upper limit on investments greater than one year	2014/15 Actual	2015/16 Latest Position	2015/16 Limit	2016/17 Limit
Upper limit / Actual	investments greater than one year under 20%	Investments greater than one year under 20%	Up to 50% of investments greater than one year	Up to 50% of investments greater than one year
	Overall maximum under 1 year	Overall maximum under 1 year	Overall average maturity 2 years	Overall average maturity 2 years