APPENDIX C

PRUDENTIAL INDICATORS 2010/11-2012/13
– RECOMMENDED FOR APPROVAL

PRUDENTIAL INDICATORS

1. Capital finance, borrowing and investment arrangements are brought together in a series of prudential indicators 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 the council have regard to these codes.

3. This Appendix includes an extract from CIPFA’s code and sets out indicators for 2010/11 to 2012/13 needing council assembly approval. (The 2008/09 indicators are shown as actuals and latest projections are given for 2009/10).

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

Extract from Prudential Code:

In considering the affordability of its capital plans, the authority is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and expenditure forecasts for the forthcoming year and the following two years. The authority is required to consider known significant variations beyond this timeframe.

Affordability is ultimately determined by a judgement on Council Tax levels and, in the case of the Housing Revenue Account, acceptable Rent levels.

The local authority shall set and monitor against the following prudential indicators as key indicators of affordability.

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

Extract from Prudential Code:

The authority will estimate for the forthcoming financial year and the following two years the ratio of financing costs to net revenue stream. At the year end, the ratio of financing costs to net revenue stream will be calculated directly from the local authority’s consolidated revenue account.

PRUDENTIAL INDICATORS 2010/11-2012/13 – RECOMMENDED FOR APPROVAL

Comment and Recommended Indicator

The financing ratio reflects financing costs arising from capital expenditure funded from borrowing and income from cash balances. The ratio rises as interest income falls and capital spend raises and the different level of the HRA and GF ratios reflects the different way the two services are organised under law.

Financing Ratios	2008/09 Actual	2009/10 Previous Estimate	2009/10 Latest Projection	**2010/11 Estimate**	**2011/12 Estimate**	**2012/13 Estimate**
HRA	32.0%	33.0%	33.0%	**33.0%**	**32.0%**	**32.0%**
GF	-0.7%	3.0%	3.0%	**3.6%**	**3.2%**	**2.6%**

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

Extract from Prudential Code:

> *A fundamental objective in the consideration of the affordability of the authority's capital plans is to ensure that the level of investment in capital asset proposed means that the total capital investment of the authority remains within sustainable limits, and in particular to consider its impact on the authority's bottom line, Council Tax and HRA rents*

Comment and Recommended Indicator

Budgetary requirements for the capital programme form part of decisions taken by Members when determining Council Tax and HRA rents each year. No increase in tax or rent is currently proposed as a result of capital programming, which is currently going through a major refresh, updates on which will be reported to the Executive. Decisions on future taxation and rents can only be considered as part of overall future resources. Currently the incremental increase in Council Tax and HRA rents recommended for approval are set out below. The finance director is also considering options on funding a new build scheme under the Housing & Communities Challenge Fund, which may involve some prudential or self-financed borrowing. The council assembly will be kept appraised of these developments.

Notional Rent or Council Tax Increases	**2009/10**	**2010/11**	**2011/12**	**2012/13**
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**

APPENDIX C

PRUDENTIAL INDICATORS 2010/11-2012/13
– RECOMMENDED FOR APPROVAL

CRITERIA TWO: PRUDENCE AND PRUDENTIAL INDICATORS FOR PRUDENCE

Extract from the Code

In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Ensuring that treasury management is carried out in accordance with good professional practice is an essential feature of prudence.

INDICATOR THREE: ESTIMATES OF CAPITAL EXPENDITURE

Extract from Prudential Code

The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. After the year end the actual expenditure incurred during the financial year will be recorded.

Comment and Recommended Indicator

The actual capital expenditure for 2008/09 was £191m. The latest projections for 2009/10 include programmed approvals and any slippage arising will fall as spend in future years. The latest capital expenditure estimates for 2010/11 to 2012/13 are set out below and will be updated following completion of a programme refresh, which, as reported to the Executive on 9 February 2010, is under way.

Capital Expenditure	2008/09 Actual £m	2009/10 Prev. Proj. £m	**2009/10 Latest Proj. £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
HRA	116	100	**94**	**109**	**117**	**76**
GF	75	130	**139**	**157**	**175**	**26**
Total	191	230	**233**	**266**	**292**	**102**

INDICATOR FOUR: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS.

Extract from Prudential Code

The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. After the year end, the actual capital financing requirement will be calculated directly from the local authority's balance sheet.

APPENDIX C

PRUDENTIAL INDICATORS 2010/11-2012/13
– RECOMMENDED FOR APPROVAL

Comment and Recommended Indicator

Both the HRA and the GF capital financing requirements (CFR) reflect the use of borrowing to pay for past capital expenditure. Projections for 2009/10 and subsequent years reflecting estimated government borrowing approvals for capital spend are set out below for approval. These may be supplemented with prudential or self-financed borrowing and temporary borrowing may be needed to pre-fund spending ahead of receipt of grants, proceeds from asset sales or revenue contributions. The council is considering options on funding a new build scheme under the Housing & Communities Agency Challenge Fund. The finance director is currently in discussion with the Agency and the Department of Communities and Local Government on funding the council's contribution. Prudential or self-financed borrowing may be required, though the use of other resources available to the council (reserves, balances, capital receipts) may be a more economic option.

CFR	2008/09 Actual £m	2009/10 Previous Estimate £m	**2009/10 Latest Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
HRA	626	639	**639**	**651**	**664**	**676**
General Fund	131	132	**132**	**130**	**128**	**126**
Total	757	771	**771**	**781**	**792**	**802**

The estimates will be affected by new accounting standards which require that funding through Private Finance Initiatives and leases be reviewed and reflected in the CFR if required. These arrangements are currently being assessed and will be reflected in future estimates and actual CFR will be reported once capital financing is completed and the statement of accounts produced.

INDICATOR FIVE: ACTUAL DEBT- THE AUTHORISED AND OPERATIONAL LIMITS

Extract from Prudential Code

> *The local authority will set for the forthcoming financial year and the following two financial years an authorised limit and an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities.*

Comment and Recommended Indicator

These two 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.

APPENDIX C

PRUDENTIAL INDICATORS 2010/11-2012/13
– RECOMMENDED FOR APPROVAL

The average level of borrowing in any one year is usually close to the capital average financing requirement. However, the borrowing may be higher or lower than the financing requirement 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 over a short period to restructure debt by replacing high rate loans with lower rate ones. Reliance on cash balances, which currently stand at £258m, to support long term capital funding is likely to be limited given variability of these balances in the short to medium term and the attraction of stable long term borrowing.

The limits are related to the capital financing requirement, but new accounting standards introduced in 2009/10 will mean all Private Finance Initiatives and leases will have to be reviewed and added to long term liabilities if they are like borrowing. The operational and authorised limits set out below for approval purely accommodates existing debts, new debts for capital spending and any temporary increases for prudent refinancing that may be carried out. They do not include any increase in long term liabilities arising from accounting changes. Therefore in addition to approving the operational and authorised limit set out below, the council assembly is asked to agree that the limits from 2010/11 onwards be treated as increased for any increase in long term liabilities that arises from accounting changes in leasing and PFI.

Operational Boundary and Authorised Limits for External debt -	2008/09 Actual Max	2009/10 Latest Estimate	**2009/10 Limit £m**	**2010/11 Limit £m**	**2011/12 Limit £m**	**2012/13 Limit £m**
Operational Boundary for Debt						
Borrowing	762	762	845	860	880	880
Other long term liabilities	0	0	20	20	20	20
Total Operational (*)	762	762	**865**	**880**	**900**	**900**
Authorised Limit for Debt -						
Borrowing	762	762	885	890	920	920
Other long term liabilities	0	0	20	20	20	20
Total Authorised (*)	762	762	**905**	**910**	**940**	**940**

Note * - The limits from 2010/11 are treated as increased for any increase in long term liabilities arising from accounting changes in leasing and PFI.
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.

APPENDIX C

PRUDENTIAL INDICATORS 2010/11-2012/13 – RECOMMENDED FOR APPROVAL

CRITERIA THREE: TREASURY MANAGEMENT

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

Extract from Prudential Code

That the local authority has adopted the Treasury Management Code.

Comment and Recommended Indicator

Southwark has adopted all previous versions of Treasury Management Code of Practice in the Public Services issued by CIPFA and the latest version published November 2009 is 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

Extract from the Treasury Management Code

The local authority will set for the forthcoming year and the following two financial year's upper limits to its exposures to the effects of changes in interest rates. These prudential indicators will relate to both fixed and variable interest rates. The local authority will set for the forthcoming year both upper and lower limits with respect to the maturity of its borrowing.

Comment and Recommended Indicator

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 reflect growth in capital financing requirement and draw on the authorised debt limit. The maturity limit reflects existing debt structure, with leeway to accommodate prudent refinancing.

LIMITS ON FIXED AND VARIABLE RATES	2008/09 Maximum Actual £m	2009/10 Latest Projection £m	2009/10 Limit £m	**2010/11 Limit £m**	**2011/12 Limit £m**	**2012/13 Limit £m**
Upper limit for fixed interest rate exposure	762	762	885	**890**	**920**	**920**
Upper limit for variable rate exposure	0	0	220	**225**	**230**	**230**

PRUDENTIAL INDICATORS 2010/11-2012/13
– RECOMMENDED FOR APPROVAL

Maturity structure of fixed rate borrowing	2008/09 Actual	2009/10 Upper Limit	2009/10 Lower Limit	2009/10 Latest Projection	**2010/11 Upper Limit**	**2010/11 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	0%	60%	0%	4%	**60%**	**0%**
5 years and within 10 years	29%	80%	0%	26%	**80%**	**0%**
10 years and above in each 10 year period	71%	100%	0%	70%	**100%**	**0%**

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

Extract from the Treasury Management Code

Where a local authority invests, for periods longer than 364 days, the local authority will set an upper limit for each forward financial year period for the maturing of such investments.

Comment and Recommended Indicator

The council's cash balances are invested across a number of counterparties which 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 2010/11 upper limit on exposure beyond one year recommended for approvals are shown below.

Upper limit on investments greater than 1 yr	2008/09	2009/10 Latest Position	2009/10 Limit	**2010/11**
Upper limit / Actual	Actual max exposure 25% of investments greater than 1 year Overall maximum average maturity 1.1 years Longest Investment 10 years	20% of investments greater than 1 year Overall maximum average maturity 8 months Longest investment 10 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**