PRUDENTIAL INDICATORS 2009/10 – 2011/12
– 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. This Appendix provides a detailed explanation of each indicator needing approval. A description of the indicators, extracted from the Prudential Code on Capital Finance for Local Authorities published by Chartered Institute of Public Finance and Accountancy, is also included.

3. The indicators needing Council Assembly approval are those for the years 2009/10 to 2011/12. (The 2007/08 indicators are shown as actuals and latest projections are given for 2008/09.)

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 2 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 2 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.

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Comment and Recommended Indicator

The financing ratio reflects financing costs arising from capital expenditure funded from borrowing and income from cash balances. The GF ratio has benefited from growth in working capital following expansion in balances. However, this benefit is expected to erode gradually as the flow of receipts slows and spend picks up. The different pattern of the HRA and GF ratios reflects the different way the two services are organised under law.

Financing Ratios	2007/08 Actual	2008/09 Previous Estimate	2008/09 Latest Projection	**2009/10 Estimate**	**2010/11 Estimate**	**2011/12 Estimate**
HRA	33.0%	32.0%	32.0%	**33.0%**	**33.0%**	**33.0%**
GF	-1.1%	0.7%	0.3%	**3.0%**	**3.0%**	**3.0%**

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 proposed as a result of the capital programme and future decisions on them can only be considered as part of overall budgets. Estimates of the incremental increase in Council Tax and HRA rents recommended for approval are set out below.

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Notional Rent or Council Tax Increases	**2009/10**	**2010/11**	**2011/12**
Weekly Housing Rent increase	**Nil**	**Nil**	**Nil**
Council Tax Band D increase	**Nil**	**Nil**	**Nil**

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 2007/08 was £140m. Projections for 2008/09 reflect spend profile and include programme approvals. The 2009/10 to 2011/12 capital expenditure estimates recommended for approval are set out below.

Capital Expenditure	2007/08 Actual £m	2008/09 Previous Estimate £m	2008/09 Latest Projection £m	**2009/10 Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**
HRA	76	115	100	**100**	**105**	**100**
GF	64	91	115	**130**	**130**	**130**
Total	140	206	215	**230**	**235**	**230**

PRUDENTIAL INDICATORS 2009/10 – 2011/12 – RECOMMENDED FOR APPROVAL

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.

Comment and Recommended Indicator

Both the HRA and the GF capital financing requirements (CFR) reflect the use of borrowing to pay for past and current capital expenditure. The latest projection for 2009/10 and subsequent years are shown below.

CFR	2007/08 Actual £m	2008/09 Previous Estimate £m	2008/09 Latest Projection £m	**2009/10 Estimate £m**	**2010/11 Estimate £m**	**2011/12 Estimate £m**
HRA	614	626	626	**639**	**651**	**664**
General Fund	129	118	131	**132**	**133**	**133**
Total	743	744	757	**771**	**784**	**797**

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.

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.

APPENDIX B

PRUDENTIAL INDICATORS 2009/10 – 2011/12 – RECOMMENDED FOR APPROVAL

The following operational and authorised limits are recommended for approval for 2009/10 to 2011/12. They are based on percentages added to capital financing requirements and should:

- accommodate existing borrowing,
- permit new investment, reflecting growth in capital financing and
- take on temporary borrowing for short period in a prudent and risk controlled framework without having the delay of a fresh re-determination (and risk compromising potential benefits in volatile markets).

Operational Boundary and Authorised Limits for External debt -	2007/08 Actual Max £m	2008/09 Previous Boundary/ Limit £m	2008/09 Latest Projection £m	**2009/10 Limit £m**	**2010/11 Limit £m**	**2011/12 Limit £m**
Operational Boundary for Debt						
Borrowing	730	815	762	845	860	890
Other long term liabilities	0	16	0	20	20	20
Total Operational	730	831	762	**865**	**880**	**910**
Authorised Limit for Debt -						
Borrowing	730	850	762	885	890	915
Other long term liabilities	0	17	0	20	20	20
Total Authorised	730	867	762	**905**	**910**	**935**

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The Council has no long term liabilities at the moment, but the limit accommodates liabilities that may be taken in place of borrowing to finance assets.

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

Extract from Prudential Code

That the local authority has adopted the Treasury Management Code.

Comment and Recommended Indicator

This indicator confirms that the Council has adopted the Code of Practice for Treasury Management in the Public Sector issued by CIPFA and updated in 2002. At Southwark, the original code was adopted when it was first produced in 1992 and the latest version was adopted by the Council in February 2003. The Council Assembly is asked to confirm the continued adoption of the Code through the recommendations contained in this report.

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

Extract from Prudential Code

The local authority will set for the forthcoming year and the following two financial years 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.

PRUDENTIAL INDICATORS 2009/10 – 2011/12 – RECOMMENDED FOR APPROVAL

LIMITS ON FIXED AND VARIABLE RATES	2007/08 Maximum Actual £m	2008/09 Previous Limit £m	2008/09 Latest Projection £m	**2009/10 Limit £m**	**2010/11 Limit £m**	**2011/12 Limit £m**
Upper limit for fixed interest rate exposure	717	850	762	**885**	**890**	**915**
Upper limit for variable rate exposure	0	215	0	**220**	**225**	**230**

Maturity structure of fixed rate borrowing	2007/08 Actual	2008/09 Upper Limit	2008/09 Lower Limit	2008//09 Latest Projection	**2009/10 Upper Limit**	**2009/10 Lower Limit**
Under 12 months	0%	25%	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%	0%	**60%**	**0%**
5 years and within 10 years	30%	80%	0%	29%	**80%**	**0%**
10 years and above	70%	100%	0%	71%	**100%**	**0%**

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

Extract from Prudential 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 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 2009/10 upper limit on exposure beyond one year recommended for approvals are shown below.

Upper limit on investments greater than 1 yr	2007/08	2008/09	2008/09	**2009/10**
Upper limit / Actual	Actual max exposure 16% of investments greater than 1 year Overall maximum average maturity 8 months Longest investment 8 years	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	Latest Positions: 17% of investments greater than 1 year Overall maximum average maturity 8 months Longest investment 9 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**