APPENDIX A

PRUDENTIAL INDICATORS 2011/12

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 are grouped into three broad areas (affordability, prudence, capital expenditure and treasury management) and 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.

2. This appendix sets out the 2011/12 outturn indicators drawn from the council's draft account for 2011/12.

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

INDICATOR ONE: 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 ratio for the HRA and the General Fund (GF) are set out below. The different level of the two ratios reflects the different way the two services are organised.

Financing Ratios	2010/11 Actual	**2011/12 Actual**
HRA	29.0%	**27.0%**
GF	4.0%	**4.0%**

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

This indicator is about the impact on council tax and rents of the capital programme. No increase in council tax or rents was sought as a result of capital spend funded through borrowing.

Notional Rent or Council Tax Increases	2010/11	**2011/12**
Weekly housing rent increase as a result of capital programme	Nil	**Nil**
Council tax band D increase as a result of capital programme	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 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 and management of debt.

This indicator is met as actual debt at 31 March 2012 stands at £462m, which is below the closing CFR for 2011/12 of £685m. At Southwark the average debt is also usually held close to the CFR excluding PFI and lease.

CRITERIA THREE: PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND TREASURY

INDICATOR FOUR: CAPITAL EXPENDITURE

The actual capital expenditure for 2011/12 including leases and certain PFI arrangements is set out below. The General Fund spend has be amended to exclude PFI spending on St Michael's and St Thomas the Apostle schools following new advice on accounting treatment.

Capital Expenditure	2010/11 Actual £m	**2011/12 Actual £m**
HRA	71	**53**
GF	104	**157**
Total	175	**210**

INDICATOR FIVE: CAPITAL FINANCING REQUIREMENTS.

The capital financing requirement reflects the use of borrowing and long term liabilities (e.g. PFI and leases) to pay for capital expenditure, net of sums setaside as minimum revenue payment (MRP) in accordance with the MRP policy agreed by council assembly annually. The 2011/12 HRA actual reflects the £199m self-financing settlement of 28 March 2012.

CFR at Year End	2010/11 Actual £m	**2011/12 Actual £m**
HRA	650	**451**
GF	157	**234**
Total	807	**685**

INDICATOR SIX: THE AUTHORISED AND OPERATIONAL LIMITS

These limits are the maximum sum that may be outstanding 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 and managed within a risk controlled framework. It is not intended for long periods. The total authorised limit is the limit councils have to determine under the Local Government Act 2003.

At Southwark 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. The limits accommodate such variation where prudent and taken in a risk controlled framework.

Operational Boundary and Authorised Limits for External debt -	2010/11 Actual Max	**2011/12 Actual Max**	2011/12 Limit £m
Operational Boundary for Debt			
Borrowing	761	**761**	860
Other long term liabilities	25	**107**	107(*)
Total Operational (*)	786	**868**	967
Authorised Limit for Debt -			
Borrowing	761	**761**	890
Other long term liabilities	25	**107**	107(*)
Total Authorised (*)	786	**868**	997

Note * - The council assembly agreed in February 2011 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 £107m in 2011/12 and the limits for that year have been updated to reflect that.

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

Council debt currently consists entirely of fixed rate loans and the limits accommodate flexibility to take on new fixed or variable rate loans where prudent in a risk controlled framework. The actuals show the maximum actual exposure to fixed and variable debt on any one day in 2011/12. And the maturity profile shows the position at the start of the year.

LIMITS ON FIXED AND VARIABLE RATES	2010/11 Maximum Actual £m	**2011/12 Maximum Actual £m**	2011/12 Limit £m
Upper limit for fixed interest rate exposure	761	**761**	890
Upper limit for variable rate exposure	0	**0**	225

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

INDICATOR ELEVEN: 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 maximum actual exposure to investments longer than one year on any one day in 2011/12 is set out below.

Upper limit on investments greater than 364 days	2010/11 Actual	**2011/12 Actual**	2011/12 Limit
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