APPENDIX A

PRUDENTIAL INDICATORS 2012/13 UPDATE

PRUDENTIAL INDICATORS

1. This appendix updates the 2012/13 prudential indicators presented to council assembly in February 2012. Actuals are drawn from the council's accounts for the year. The indicators fall in three broad areas: affordability, prudence 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.

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 income as a proportion of the net revenue stream. The ratios for the HRA and the General Fund (GF) are set out below and the difference between the two reflects the different way the two services are organised. The drop in the HRA ratio reflects the £199.3m debt redemption made under HRA self-financing towards the end of March 2012 and although GF interest cost fell as a result of the £100m debt re-financing carried out between March 2012 and April 2012, a rise in PFI payments, as schemes become operational, has meant the GF ratio has increased.

Financing Ratios	**2011/12 Actual**	2012/13 Projection
HRA	**27%**	17%
GF	**4%**	6%

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	2011/12	**2012/13**
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 and the actual debt in the six months to September 2012 has not exceeded £562.5m which is below the closing CFR for 2012/13 of £677m. 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 capital expenditure projection for 2012/13, including certain leases and PFI arrangements required to be put on the balance sheet, is set out below.

Capital Expenditure	2011/12 Actual £m	**2012/13 Projection £m**
HRA	53	**89**
GF	157	**110**
Total	210	**199**

INDICATOR FIVE: CAPITAL FINANCING REQUIREMENTS.

The capital financing requirement reflects the use of borrowing and long term liabilities 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.

CFR at Year End	2011/12 Actual £m	**2012/13 Projection £m**
HRA	451	**451**
GF	234	**226**
Total	685	**677**

INDICATOR SIX: HRA LIMIT ON INDEBTEDNESS

This is a new indicator and is the limit imposed by the Government on HRA debt under self-financing from 2012/13. The indebtedness limit indicated in the self-financing consultation issued in February 2012 is £577m. The actual HRA debt stands at £451m.

INDICATOR SEVEN: 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 -	2011/12 Actual Max £m	2012/13 Limit £m	**2012/13 Projection £m**
Operational Boundary for Debt			
Borrowing	761	630	**563**
Other long term liabilities	107	110	**110**
Total Operational	868	740	**673**
Authorised Limit for Debt -			
Borrowing	761	655	**563**
Other long term liabilities	107	115	**110**
Total Authorised	868	770	**673**

INDICATOR EIGHT: GROSS AND NET DEBT

This is a new indicator and is 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 the council's revenue balances, provisions and working capital are held in investments pending their application. To ensure the funds remain in tact and available when they are need, the upper limit on net debt as a percentage of gross debt is 100%.

	2012/13 Limit	**2012/13 Max to Sep 2012**
Upper Limit on Net Debt as a % of Gross Debt	**100%**	**45%**

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

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
INDICATOR TWELVE: 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 exposure for the first six months in 2012/13 is set out below and the maturity profile shows the position at start of the year.

LIMITS ON FIXED AND VARIABLE RATES	**2011/12 Maximum Actual £m**	2012/13 Limit £m	2012/13 Max to Sep 2012 £m
Upper limit for fixed interest rate exposure	**761**	655	563
Upper limit for variable rate exposure	**0**	165	0

Maturity structure of fixed rate borrowing at start of year	2011/12 Actual	2012/13 Lower Limit	2012/13 Upper Limit	**2012/13 £m**
Under 12 months	0%	0%	30%	**0%**
12 months and within 24 months	0%	0%	30%	**0%**
24 months and within 5 years	29%	0%	60%	**18%**
5 years and within 10 years	3%	0%	80%	**7%**
10 years and within 20 years	24%	0%	100%	**27%**
20 years and within 30 years	8%	0%	100%	**7%**
30 years and within 40 years	16%	0%	100%	**23%**
40 years and within 50 years	20%	0%	100%	**18%**

INDICATOR THIRTEEN: 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, and large high rated banks and building societies. Exposure to investments beyond one year helps raise returns. However, as returns can be vulnerable to unexpected market volatility, upper limits are placed on such exposure. The latest exposure to investments longer than one year in the first six months of 2012/13 is set out below.

Upper limit on investments greater than 364 days	**2011/12 Actual**	2012/13 Limit	2012/13 Max to Sep 2012 £m
Upper limit / Actual	**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	**13% of investments greater than 364 days** **Overall maximum average maturity 5 months** **Longest investment 5 yrs**