PRUDENTIAL INDICATORS

BACKGROUND

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.

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 plus Guidance, published by CIPFA and updated in November 2011. The Local Government Act 2003 requires that councils have regard to these codes.

PRUDENTIAL INDICATORS

3. The indicators are grouped into three broad areas: affordability, prudence, capital expenditure and treasury. The 2011/12 indicators are shown as actuals, the latest projections are in the 2012/13 column and future estimates or limits are under the 2013/14 to 2015/16 columns. The indicators needing approval are the ones for 2013/14 to 2015/16. They do not affect existing budgets and approval will enable the strategic director of finance and corporate resources to carry out his financial responsibilities in this area. Estimates will be updated over the course of 2013/14 to reflect latest activity.

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

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

4. 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 drop in the HRA ratio between 2011/12 and 2012/13 follows a fall in debt costs under HRA self-financing, in which HRA Subsidy stopped and £199m in HRA debt was cancelled, leaving the remaining HRA debt to be serviced entirely out of HRA income. The General Fund ratio for 2012/13 includes the full year effects of the two PFI schemes (St Thomas the Apostle College and the integrated waste management facility at the Old Kent Road site) which became operational in 2011/12. Part year effects of financing the acquisition of the council headquarters at 160 Tooley Street SE1 are also included in 2012/13 GF projection, with full year effects falling in the following the year. The financing ratios for the HRA and the General Fund requiring approval are set out below. The indicators do not affect existing budgets.

Financing Ratios	2011/12 Actual	2012/13 Latest Projection	**2013/14 Estimate**	**2014/15 Estimate**	**2015/16 Estimate**
HRA	27%	16.0%	**16.0%**	**15.0%**	**14.0%**
GF	4%	6.0%	**8.0%**	**8.0%**	**8.0%**

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

5. Currently no increase in budgetary requirement is proposed as a result of the capital programme and the incremental impact of capital expenditure on council tax or HRA rents recommended for approval are set out below.

Notional Rent or Council Tax Increases	2012/13	**2013/14**	**2014/15**	**2015/16**
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**

CRITERIA TWO: PRUDENCE AND PRUDENTIAL INDICATORS FOR PRUDENCE

INDICATOR THREE: DEBT AND CAPITAL FINANCING REQUIREMENT

6. This indicator compares debt to the capital financing requirement (CFR), which is made up of funding for capital 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 of capital expenditure and management of debt. Under this indicator the actual debt currently stands at £560m and is below the projected closing CFR for 2012/13 of £857m.

CRITERIA THREE: PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND TREASURY

INDICATOR FOUR: ESTIMATES OF CAPITAL EXPENDITURE

7. The actual capital expenditure, including spend on leases and PFI in 2011/12 was £210m. The projections and estimates for 2012/13 to 2015/16, drawing on latest monitoring are set out below. The 2012/13 GF projection includes the acquisition of the freehold interest in the council headquarters at 160 Tooley Street. And the increase in the HRA estimate for 2013/14 includes re-profiling and slippage of existing approvals. Both the HRA and GF estimates will be updated as spend programmes develop.

Capital Expenditure	2011/12 Actual £m	2012/13 Projection £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
HRA	53	82	**147**	**90**	**84**
GF	157	277	**121**	**64**	**51**
Total	210	359	**268**	**154**	**135**

INDICATOR FIVE: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS.

8. The capital financing requirement (CFR) reflects borrowing and long term liabilities (e.g. PFI and leases) to pay for capital expenditure. Estimates of the CFR are set out below for approval. The 2012/13 GF projection includes the acquisition of the freehold interest in 160 Tooley Street and although it was paid for by reducing sums held in investments, its cost is included here as cash was used in place of borrowing – using cash was more efficient than borrowing.

CFR at year end	2011/12 Actual £m	2012/13 Projection £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
HRA	451	451	**451**	**451**	**451**
General Fund	234	406	**393**	**399**	**385**
Total	685	857	**844**	**850**	**836**

INDICATOR SIX: HRA LIMIT ON INDEBTEDNESS

9. The HRA limit on indebtedness is the limit imposed by the government on HRA debt under self-financing. The indebtedness limit from 2012/13 indicated in the self-financing consultation issued in February 2012 is £577m. The actual HRA debt currently stands £451m.

INDICATOR SEVEN: ACTUAL DEBT- THE AUTHORISED LIMIT AND OPERATIONAL BOUNDARY

10. The authorised limit and operational boundary accomodate existing debts and long term liabilities (leases and PFI) outstanding on any one day. 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 on any one day depending on cash flow needs and timing of borrowing.

11. As well as accommodating existing debts and liabilities, the operational boundary also contains ordinary borrowing requirements (e.g. to fund future capital spend, re-finance maturities and replace cash used in place of borrowing). The authorised limit is a higher limit with additional capacity to prudently raise debt temporarily and enable debt refinancing to be carried out efficiently and effectively, for example replace expensive debt with cheaper debt to mitigate risks. Such activity is subject to developments in funding markets and is only carried out within a risk controlled framework and existing financial delegation. The authorised limit and the operational boundary are set out below for approval. The authorised limit is the total limit on borrowing and long term liabilities that local authorities have to determine under the Local Government Act 2003.

Operational Boundary and Authorised Limits for External debt	2011/12 Actual Max	2012/13 Latest Proj Max.	2012/13 Limit £m	**2013/14 Limit £m**	**2014/15 Limit £m**	**2015/16 Limit £m**
Operational Boundary for Debt						
Borrowing	761	563	630	815	805	795
Other long term liabilities	107	110	110	115	130	125
Total Operational (*)	868	673	740	**930**	**935**	**920**
Authorised Limit for Debt -						
Borrowing	761	563	770	850	840	830
Other long term liabilities	107	110	115	120	140	130
Total Authorised (*)	868	673	885	**970**	**980**	**960**

Note * - With the acquisition of the council's headquarters at 160 Tooley Street now complete, the borrowing capacity to replace the cash that was used to acquire it is included within the operational boundary from 2013/14. As before, the strategic director of finance and corporate resources 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 and justified. Activity must nevertheless remain within the overall authorised limit.

INDICATOR EIGHT: GROSS AND NET DEBT

12. This is an indicator about 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%.

	2012/13 Max to Dec 2012	2012/13 Limit	**2013/14 Limit**	**2014/15 Limit**	**2015/16 Limit**
Upper Limit on Net Debt as a % of Gross Debt	66%	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.

INDICATOR TEN: INTEREST RATE EXPOSURES – FIXED
INDICATOR ELEVEN: INTEREST RATE EXPOSURES – VARIABLE
INDICATOR TWELVE: MATURITIES

14. 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 draw on the authorised debt limit and the maturity limit reflects existing debt with flexibility to accommodate refinancing where prudent. The exposure for the first nine months in 2012/13 is set out below and the maturity profile shows the position at start of the year.

LIMITS ON FIXED AND	2011/12	2012/13	2012/13	**2013/14**	**2014/15**	**2015/16**

VARIABLE RATES	Maximum Actual £m	Max to Dec 2012 £m	Limit £m	**Limit £m**	**Limit £m**	**Limit £m**
Upper limit for fixed interest rate exposure	761	563	655	**850**	**840**	**830**
Upper limit for variable rate exposure	0	0	165	**215**	**210**	**210**

Maturity structure of fixed rate borrowing at start of year	2012/13 Actual at start of year	2012/13 Lower Limit	2012/13 Upper Limit	**2013/14 Lower Limit**	**2013/14 Upper Limit**
Under 12 months	0%	0%	30%	**0%**	**30%**
12 months and within 24 months	0%	0%	30%	**0%**	**30%**
24 months and within 5 years	18%	0%	60%	**0%**	**60%**
5 years and within 10 years	7%	0%	80%	**0%**	**80%**
10 years and within 20 years	27%	0%	100%	**0%**	**100%**
20 years and within 30 years	7%	0%	100%	**0%**	**100%**
30 years and within 40 years	23%	0%	100%	**0%**	**100%**
40 years and within 50 years	18%	0%	100%	**0%**	**100%**

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

15. 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 2013/14 upper limit on exposure beyond one year recommended for approval is shown below. In addition, exposure will be subject to the annual investment strategy and the actual exposure will depend on market conditions and be within duration limits. Capital preservation will, as required under the strategy, remain a priority.

Upper limit on investments greater than 364 days	2011/12 Actual	2012/13 Latest Position	2012/13 Limit	**2013/14 Limit**
Upper limit / Actual	Actual max exposure 14% of investments greater than 364 days Overall maximum average maturity 7 months Longest investment 5 years	15% 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	**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**