PRUDENTIAL INDICATORS - OUTTURN 2012/13

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. 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.

2. This appendix sets out the 2012/13 outturn indicators drawn from the council's draft accounts for that year.

PRUDENTIAL INDICATORS – OUTTURN 2012/13

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

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

3. 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 Housing Revenue Account (HRA) ratio in 2012/13 follows a fall in debt costs under HRA self-financing, in which HRA Subsidy stopped and £199m in HRA debt was cancelled in March 2012, leaving the remaining HRA debt to be serviced entirely out of HRA income. The General Fund (GF) 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 and part year effects of the cash drawn down to finance the acquisition of the council headquarters at 160 Tooley Street SE1. The outturn ratios are set out below and reflect latest guidance on calculation issued by CIPFA. The indicators do not affect existing budgets.

Financing Ratios	2011/12 Actual	**2012/13 Actual**
Housing Revenue Account (HRA)	25%	**15.0%**
General Fund (GF)	4%	**6.0%**

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

4. No incremental 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

5. Funding for capital plus long term liabilities like PFI and leases which remain to be discharged is represented in the capital financing requirement (CFR). Normally 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. As at 31 March 2013 council debt is below the CFR. The debt outstanding at 31 March 2013 was £560m, while the CFR stood at £848m. The difference between the two represents long term liabilities and cash used in place of debt.

CRITERIA THREE: PRUDENTIAL INDICATORS FOR CAPITAL EXPENDITURE AND TREASURY

INDICATOR FOUR: ESTIMATES OF CAPITAL EXPENDITURE

6. The actual capital expenditure, including spend on long term liabilities drawn from the council's accounts is set out below. The GF spend in 2012/13 includes the acquisition of the freehold interest in the council headquarters at 160 Tooley Street. Further analysis of spend is set out in capital monitoring reports to cabinet.

Capital Expenditure	2011/12 Actual £m	**2012/13 Actual £m**
Housing Revenue Account (HRA)	53	**86**
General Fund (GF)	157	**262**
Total	210	**348**

INDICATOR FIVE: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS

7. The outturn capital financing requirement is set out in the table below. The 2012/13 General Fund CFR includes the acquisition of the freehold interest in 160 Tooley Street 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 Actual £m**
Housing Revenue Account (HRA)	451	**451**
General Fund (GF)	234	**397**
Total	685	**848**

INDICATOR SIX: HRA LIMIT ON INDEBTEDNESS

8. The HRA limit on indebtedness is the limit imposed by the government on HRA debt under self-financing. The indebtedness limit for 2012/13 set out in the self-financing determination issued in February 2012 is £577m. The actual HRA debt stood at £451m throughout 2012/13.

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

9. This indicator caps the maximum sum that may be outstanding on debt and long term liabilities on any one day. The lower limit is the operational boundary and takes account of ordinary activity, while the authorised limit is the higher limit, which councils have to determine under the Local Government Act 2003, and accommodates additional prudent borrowing that may be needed for very short periods within a risk controlled framework.

Operational Boundary and Authorised Limits for External debt	2011/12 Actual Maximum £m	2012/13 Limit £m	**2012/13 Actual Maximum £m**
Operational Boundary for Debt			
Borrowing	761	630	562
Other long term liabilities	107	110	107
Total Operational (*)	868	740	**669**
Authorised Limit for Debt -			
Borrowing	761	770	562
Other long term liabilities	107	115	107
Total Authorised (*)	868	885	**669**

Note * - The strategic director of finance and corporate resources has authority to allow activity to go outside the operational boundary and vary the mix between long term liabilities and borrowing should it be prudent and justified. Activity must nevertheless remain within the total authorised limit.

INDICATOR EIGHT: GROSS AND NET DEBT

10. This indicator is an 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 holds investment to meet spend as needed.

Net Debt	2011/12 Actual	2012/13 Limit	**2012/13 Actual**
Upper Limit on Net Debt as a % of Gross Debt	66%	100%	**68%**

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

11. 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

12. 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 within a risk controlled framework. The actuals show the maximum exposure to fixed and variable debt on any one day in 2012/13. And the maturity profile shows the position at the start of the year.

LIMITS ON FIXED AND VARIABLE RATES	2011/12 Maximum Actual £m	2012/13 Limit £m	**2012/13 Maximum Actual £m**
Upper limit for fixed interest rate exposure	761	655	**562**
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 Actual**
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

13. The actual exposure to longer investment during 2012/13 is set out below and reflects the cautious approach taken when lending in the face of continued market volatility.

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