APPENDIX B

PRUDENTIAL INDICATORS

BACKGROUND

1. Capital finance, borrowing and investment arrangements are supported by a series of prudential indicators, 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 2011. The Local Government Act 2003 requires that councils have regard to these codes.

PRUDENTIAL INDICATORS

2. The indicators are grouped into three broad areas: affordability and prudence, capital finance and treasury management. The 2013/14 indicators are shown as actuals, the latest current year projections are in the 2014/15 column and future estimates or limits are under the 2015/16 to 2017/18 columns. The indicators recommended for approval are the ones for 2015/16 to 2017/18. The indicators are of a technical nature and include a self imposed authorised limit on debt which the council assembly must determine each year. Approval will enable the strategic director of finance and corporate services to comply with the requirements of the 2003 Act and carry out his financial responsibilities in this area. Existing budgets take account of capital finance and treasury activities and the indicators themselves have no effect on those budgets.

INDICATORS ON AFFORDABILITY AND PRUDENCE

Indicator one: estimates of the ratio of financing costs to net revenue stream

3. The financing ratio is a technical measure of the cost of financing capital expenditure (including PFI and leases) net of interest income as a proportion of the net revenue stream. The 2013/14 HRA ratio includes £35.8m debt financing in 2013/14 to raise HRA headroom for new capital investment. And both the HRA and GF ratios from 2014/15 reflect provisions to pare down financing liabilities.

Financing Ratios	2013/14 Actual	2014/15 Projection	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA	34%	17%	16.0%	15.0%	14.0%
GF	7%	8%	8.0%	8.0%	8.0%

Indicator two: estimates of the incremental impact of capital investment on the council tax and housing rents

4. This is a measure of the effect of capital spend proposals on the council tax and HRA rents. No increase in either is sought as a result of the programme and spend is managed within anticipated resources.

Notional Rent or Council Tax Increases	2014/15	2015/16	2016/17	2017/18
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

INDICATORS ON CAPITAL FINANCE

Indicator three: debt and capital financing requirement

6. The CFR is a measure of capital expenditure financed through borrowing and long term liabilities (e.g. PFI). The level of gross debt should normally not exceed the CFR except over a short period.

7. The maximum gross debt over the nine months into 2014/15 was £475m and remained below the £804m CFR, on account of cash balances, internal borrowing and PFI transactions.

Indicator four: estimates of capital expenditure

8. The estimated capital expenditure for 2015/16 to 2017/18, drawing on latest monitoring, are set our below and will over the course of 2015/16 be updated for re-profiled spend and resource timing.

Capital Expenditure	2013/14 Actual £m	2014/15 Projection £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA	123	177	254	263	161
GF	67	102	159	157	50
Total £m	**190**	**279**	**413**	**420**	**211**

Indicator five: actual and estimates of capital financing requirements.

9. The capital financing requirement (CFR) reflects balances in borrowing and long term liabilities (e.g. PFI) to fund capital spend and sums set-aside to reduce debt and liabilities

CFR At year end	2013/14 Actual £m	2014/15 Projection £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA	419	413	406	399	393
General Fund	385	391	378	365	351
Total	**804**	**804**	**784**	**764**	**744**

INDICATORS ON TREASURY MANAGEMENT

Indicator six: hra limit on indebtedness

10. This is a limit on HRA capital financed by debt and long term liabilities determined by the government. The indebtedness limit for 2015/16 is £577m (unchanged since 2012/13). The actual HRA debt and long term liabilities at 31 December 2014 stands at £413m.

Indicator seven: actual debt and the authorised limit and operational boundary

11. These are limits the council determine to accommodate debt, internal borrowing and long term liabilities. The lower limit is the operational boundary and takes account of existing positions, debt repayments, replacement of internal borrowing and re-financing. The higher limit is the authorised limit and enables additional debt to be taken for very short periods in the interest of prudence within a risk controlled framework. The authorised limit from 2015/16 is the total limit on borrowing and long term liabilities that local authorities have to determine under the Local Government Act 2003 and is some 10% above estimated CFR.

Operational Boundary and Authorised Limits for External debt	2013/14 Actual Max	2014/15 Latest Proj Max.	2014/15 Limit £m	2015/16 Limit £m	2016/17 Limit £m	2017/18 Limit £m
Operational Boundary for Debt						
Borrowing	560	475	765	705	690	675
Other long term liabilities	98	113	125	120	115	110
Total Operational (*) £m	**658**	**588**	**890**	**825**	**805**	**785**
Authorised Limit for Debt -						
Borrowing	560	475	805	740	725	710
Other long term liabilities	98	113	130	125	120	115
Total Authorised (*) £m	**658**	**588**	**935**	**865**	**845**	**825**

Note * - As before, the strategic director of finance and corporate services 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 of 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%.

	2013/14 Max	2014/15 Max to Dec 2014	2014/15 Limit	2015/16 Limit	2016/17 Limit	2017/18 Limit
Upper Limit on Net Debt as a % of Gross Debt	68%	65%	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.

Indicators ten to twelve: upper limits on fixed rates, upper limits on variable rates and maturity limits

14. The fixed and variable rate limits draw on the authorised debt limit and the maturity limit accommodates existing debt. The limits contain flexibility to carry out refinancing, including replacing internal borrowing and maturing debt with external fixed or variable rate borrowing, where prudent. Actual activity is subject to developments in funding markets and is only carried out within a risk controlled framework and existing financial delegation.

LIMITS ON FIXED AND VARIABLE RATES	2013/14 Maximum Actual £m	2014/15 Max to Dec 2014 £m	2014/15 Limit £m	2015/16 Limit £m	2016/17 Limit £m	2017/18 Limit £m
Upper limit for fixed interest rate exposure	560	475	805	740	725	710
Upper limit for variable rate exposure	0	0	200	185	180	175

Maturity structure of fixed rate borrowing at start of year	2014/15 Actual at start of year	2014/15 Lower Limit	2014/15 Upper Limit	2015/16 Lower Limit	2015/16 Upper Limit
Under 12 months	1%	0%	20%	0%	20%
12 months and within 24 months	1%	0%	20%	0%	20%
24 months and within 5 years	5%	0%	30%	0%	30%
5 years and within 10 years	16%	0%	40%	0%	40%
10 years and within 20 years	31%	0%	40%	0%	50%
20 years and within 30 years	6%	0%	40%	0%	50%
30 years and within 40 years	29%	0%	40%	0%	50%
40 years and within 50 years	11%	0%	40%	0%	50%

Indicator thirteen: total principal sums invested for periods longer than one year.

15. This indicator caps maximum exposure to longer investments whilst recognising that such investments can help secure additional yield within a risk controlled framework. From 2015/16 the overall average life of investments is limited to 2 years as referred to in the annual investment strategy and recent exposure has remained cautious in view of market volatility.

Upper limit on investments greater than one year	2013/14 Actual	2014/15 Latest Position	2014/15 Limit	2015/16 Limit
Upper limit / Actual	Actual max exposure15% of investments greater than one year Overall maximum average maturity 8	15% of investments greater than one year Overall maximum average maturity 8 months	Up to 50% of investments greater than one year Overall average maturity 3 years	Up to 50% of investments greater than one year Overall average maturity 2 years