Prudential Indicators 2012/13 Monitor 2 — Annex A

	PRUDENTIAL INDICATORS		2012/13 Original Budget	2012/13 Monitor 2
1)	**Capital Expenditure**		**£M**	**£M**
	To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget.	Non - HRA	67.6	60.3
		HRA	7.8	8.7
		TOTAL	75.4	69.0
2)	**Ratio of financing costs to net revenue stream**			
	This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy.	Non - HRA	9.2%	9.7%
		HRA	2.3%	2.1%
3a)	**Incremental impact of capital investment decisions - Council Tax**		**£ p**	**£ p**
	Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.	Increase in Council Tax (band D) per annum	23.89	18.27
3b)	**Incremental impact of capital investment decisions - Hsg Rents**		**£ p**	**£ p**

	Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.	Increase in average housing rent per week	0.00	0.00
4)	**Net Borrowing not exceed the CFR** To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose and so not exceed the CFR.		**£M** 258.5	**£M** 226.2
5)	**Capital Financing Requirement as at 31 March** Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	 Non - HRA HRA TOTAL	**£M** 168.6 140.4 309.0	**£M** 179.2 140.4 319.6
6a)	**Authorised Limit for external debt -** The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities for 3 financial years.	 borrowing other long term liabilities TOTAL	**£M** 337.9 20.0 357.9	**£M** 337.9 20.0 357.9

6b)	**Operational Boundary for external debt -** The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.	borrowing other long term liabilities TOTAL	**£M** 307.9 20.0 327.9	**£M** 307.9 20.0 327.9
7)	**Adoption of the CIPFA Code of Practice for Treasury Management in Public Services** Ensuring Treasury Management (TM) Practices remain in line with the Code of Practice.	TM Policy Statement	✓	✓
		12 TM Practices	✓	✓
		Policy Placed Before Council	✓	✓
		Annual Review Undertaken	✓	✓
		A&G named as specified Scrutiny body	✓	✓
8a)	**Upper limit for fixed interest rate exposure** The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re fixed rate borrowing / investments Actual Net interest re fixed rate borrowing / investments	104%	109%
8b)	**Upper limit for variable rate exposure**			

	The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts.	Net interest re variable rate borrowing / investments Actual Net interest re variable rate borrowing / investments	-4%	-9%
9)	**Upper limit for total principal sums invested for over 364 days**		**£M** 10.0	**£M** 10.0
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long-term loans mature in different periods thus spreading the risk.	Investments over 364 days	£0	£0
10)	**Maturity structure of new fixed rate borrowing**		**Upper Limit**	**Actual** £M 258.6
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.	under 12 months	30%	2%
		12 months & within 24 months	30%	3%
		24 months & within 5 years	40%	7%
		5 years & within 10 years	40%	15%
		10 years & and above	90%	74%

Glossary Of Abbreviations
HRA - Housing Revenue Account

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 23 February 2012 for the financial year 2012/13 must be monitored and reported at Outturn. The Prudential Indicators are detailed above and the key points are explained below:

2. **Indicator 1 - Capital Expenditure:** The capital programme expenditure for 2012/13 was originally estimated at £65.1m and at monitor 2 had increased to £69.0m. The Capital Programme 2012/13 Monitor 2 report has further detail with regards to this movement. In brief, new borrowing schemes of £4.1m funded from existing revenue budgets increased capital expenditure and also a number of schemes were re-profiled to future years.

2. **Indicator 2 – Ratio of Finance Costs to Net revenue Stream**: This indicator represents how much borrowing (where the finance costs are not supported by government grant) for the capital programme, will cost as a percentage of the net revenue stream of the Council. The General Fund indicator at Monitor 2 is 9.7% compared to a budgeted level of 9.2%, with the marginal increase due to increased finance costs, as a result of increased provision to repay borrowing as defined in statute. The Housing Revenue Account (HRA) version of the indictor is 2.1% compared to the budgeted level of 2.3%, the difference is mainly due to a higher HRA balance which earned investment income than was originally estimated. Under the new self financing regulations, the increased finance costs to service the additional £121.1m borrowing taken are covered by the increased housing rent collected by the authority. In the past this rent was always collected, rent has not risen, but under the housing subsidy scheme it would have been paid to the Government.

3. **Indicator 3 (a) & (b) - Incremental Impact of Capital Investment Decisions on the Level of Council Tax (3a) and Housing Rents (3b):** This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council can fund its discretionary capital programme from two main sources, from borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, where possible. However in the current economic environment with reduced capital receipts there is the requirement to use borrowing to support the capital programme, which has an impact on Council Tax through the revenue cost of financing the borrowing. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. For the General Fund at Monitor 2 the increase in Council tax (band D) per annum is £18.27 compared to £23.89 estimated at budget. The reduction is in line with no borrowing occurring in the first six months for 2012/13.

4. **Indicator 4 – Net Borrowing not exceed the CFR:** In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue

expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12. The table highlights the Council's net borrowing position against the CFR, it confirms that no borrowing occurred in advance of need and the net borrowing position was below the CFR.

5. **Indicator 5 - Capital Financing Requirement (CFR)**: The CFR at Monitor 2 is £319.6m, higher than the CFR originally budgeted at £3.09.0m. This is as a result of less capital receipts / grants / contributions being used to fund the capital programme and new schemes (as mentioned in paragraph 2 Indicator 1 above) being funded from borrowing. The CFR represents the Council's underlying need to borrow for all capital investment over time. The CFR represents the capital expenditure (which has not yet been paid for by revenue or other resources) which is required to be funded by borrowing. Under Statute, the council is permitted to borrow to fund capital expenditure. When borrowing is undertaken it is not taken for a specific capital scheme but rather to fund the council's capital financing requirement as a whole.

6. **Indicator 6(a) - Authorised Limit**: The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level, which is approved at Full Council every year. The table confirms at Monitor 2 that the Council has maintained gross borrowing within its authorised limit of £357.9m. Borrowing is currently £258.6m, the headroom available within this limit allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme.

7. **Indicator 6(b) – Operational Boundary:** This is the estimated borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. At Monitor 2 the actual borrowing level was below the operational boundary as no borrowing has been taken, even though this could have occurred in line with the Capital Financing Requirement of the capital programme. This was in accordance with the strategy to hold off borrowing due to borrowing rates being much higher than investment rates.

8. **Indicator 7 - Adoption of the CIPFA Code of Practice in Treasury Management:** In accordance with the Prudential Code, the Council has adopted the CIPFA Treasury Management in the Public Services Code of Practice "the Code" prior to the beginning of the financial year. The table shows the code has been adhered to.

9. **Indicator 8(a) & (b) - Upper Limit for Fixed and Variable Interest rate Exposure:** Interest rate exposure on debt is positive due to it being in relation to interest paid and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%.

The majority of the interest received for the Council relates to variable rated investments, where as the interest paid on debt is fixed. The limits set in the budget are similar to those at Monitor 2 at 109% for fixed interest rate exposure and –9% for variable interest rate exposure.

10. **Indicator 9 - Upper Limit for total principal sums invested for over 364 days:** This has been set at £10m and is approximately 25% of the average portfolio throughout the year. To date no investments for longer than 364 days have been taken due to the credit ratings assigned to counterparties. In the current environment it is viewed as high risk to have long term exposure. The banks which are nationalised have the backing of government and therefore investment up to 1 year are considered.

11. **Indicator 10 - Maturity Structure of Fixed rate Borrowing:** The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year and be exposed to interest rates in any one year. At Monitor 2 the borrowing portfolio maturity profile was within the limits set as represented in the table.