Annex A

Prudential Indicators 2012/13 Outturn

	Prudential Indicator		2011/12 actual	2012/13 Monitor 3	2012/13 actual
1	**Capital Expenditure** To allow the authority to plan for capital financing as a result of the capital programme and enable the monitoring of capital budgets.	Non HRA HRA Total	£41.5m £129.9m £171.4m	£48.6m £8.7m £57.3m	£39.6m £6.8m £46.5m
2	**Ratio of financing costs to net revenue stream** An estimate of 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.	Non HRA HRA	6.5% 2.0%	9.7% 2.1%	11.1% 1.7%
3a	**Incremental impact of capital investment decisions – Council Tax** 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 band D Council Tax per annum	£19.62	£18.29	£18.65
3b	**Incremental impact of capital investment decisions – Housing Rents** 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.		£0	£0	£0
4	**Net borrowing should not exceed the CFR**				

	Prudential Indicator		2011/12 actual	2012/13 Monitor 3	2012/13 actual
	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.		£235.4m	£225.6m	£258.6m
5	**CFR as at 31st 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	£152.9m <u>£140.3m</u> £293.2m	£174.2m <u>£140.3m</u> £314.5m	£181.6m <u>£140.3m</u> £321.9m
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	£337m <u>£10m</u> £347m	£337.9m <u>£20m</u> £357.9m	£337m <u>£10m</u> £347m
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	Borrowing Other long term liabilities Total	£317m <u>£10m</u> £327m	£307.9m <u>£20m</u> £327.9m	£317m <u>£10m</u> £327m

	Prudential Indicator		2011/12 actual	2012/13 Monitor 3	2012/13 actual
	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.				
7	**Adoption of the CIPFA Code of Practice for Treasury Management in Public Services**		✓	✓	✓
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.		107%	109%	110%
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.		-7%	-9%	-10%
9	**Upper limit for total principal sums invested for over 364 days**		£0	£0	£0

	Prudential Indicator		2011/12 actual	2012/13 Monitor 3	2012/13 actual
	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.				
10	**Maturity structure of new fixed rate borrowing** 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.		£261.6m	£258.6m	£261.4m
		under 12 months	1%	2%	3%
		1 to 2 years	0%	3%	2%
		2 to 5 years	5%	7%	7%
		5 to 10 years	15%	15%	14%
		10 years and above	79%	75%	74%

Annex A

Glossary of abbreviations

HRA – Housing Revenue Account

CFR – Capital Financing Requirement

Analysis of Prudential Indicators

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 estimated at £57.3m for monitor 3 and had decreased to £46.5m at outturn. The Capital Programme Outturn report has further detail with regards to this movement.

2. **Indicator 2 – Ratio of Finance Costs to Net revenue Stream**: This indicator represents how much borrowing for the capital programme will cost as a percentage of the net revenue stream of the Council. The General Fund indicator at Monitor 3 was 9.7% compared to the outturn of 11.1%, with the marginal increase due to increased finance costs. The Housing Revenue Account (HRA) version of the indictor is 1.7% compared to the monitor 3 level of 2.1%, the reduction is mainly due to a higher HRA balance which earned investment income than was originally estimated.

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. The increase in Council tax (band D) per annum is £18.65 compared to £18.29 estimated at Monitor 3.

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 2012/13. 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 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 that the Council has maintained gross borrowing within its authorised limit of £347m. 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 outturn the actual borrowing level was below the operational boundary.

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 3 at 110% for fixed interest rate exposure and –10% 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. The borrowing portfolio maturity profile is within the limits set as represented in the table.