

Annex A

ANNEX A

PRUDENTIAL INDICATORS			2009/10 Budget estimate	2009/10 Monitor 1 estimate	209/10 Monitor 2 estimate
1) Capital Expenditure 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		£'000 57,019	£'000 60,052	£'000 60,395
	HRA		6,971	6,982	6,984
	TOTAL		63,990	67,034	67,379
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		6.98%	7.16%	7.00%
	HRA		3.00%	3.37%	3.10%
3) 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 Council Tax (band D) per annum		£ p 19.51	£ p 12.50	£ p 18.95
4) Incremental impact of capital investment decisions - Hsg 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.	Increase in average housing rent per week		£ p 0.00	£ p 0.00	£ p 0.00
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		89,068	94,229	110,487
	HRA		13,035	12,235	12,235
	TOTAL		102,103	106,464	122,722
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		186	186	186
	other long term liabilities		0	0	0
	TOTAL		186	186	186
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		145	145	145
	other long term liabilities		0	0	0
	TOTAL		145	145	145
7) Adoption of the CIPFA Code of Practice for Treasury Management in Public Services Ensuring Treasury Management Practices remain in line with the SORP.		TM Policy Statement 12 TM Practices Policy Placed Before Council Annual Review Undertaken			
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		150%	150%	150%
	Actual Net interest re fixed rate borrowing / investments		146%	113%	118%

8b)	<p>Upper limit for variable rate exposure</p> <p>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</p>	<p>Net interest re variable rate borrowing / investments</p> <p>Actual Net interest re variable rate borrowing / investments</p>	-50%	-50%	-50%
9)	<p>Upper limit for total principal sums invested for over 364 days</p> <p>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.</p>		£10,000	£10,000	£10,000
10)	<p>Maturity structure of new fixed rate borrowing during 2009/10</p> <p>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.</p>		Upper Limit	Lower Limit	Mon 2
		under 12 months	10%	0%	0%
		12 months and within 24 months	10%	0%	4%
		24 months and within 5 years	25%	0%	3%
		5 years and within 10 years	40%	0%	14%
		10 years and above	90%	30%	79%

Glossary Of Abbreviations

HRA Housing Revenue Account

CYC City of York Council

SORP Statement of Recommended Practice for Local Authorities

CFR Capital Financing Requirement

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 26th February 2009 for the financial year 09/10 must be monitored and reported through the financial year. The Prudential Indicators are detailed above and some of the key points are explained below:
2. Size of the Capital Programme (Indicator 1) - The capital programme expenditure at monitor 2 was estimated to be £67.379m and in the original budget was £63.990m. The increase is detailed further in the Capital Programme Monitor 1. There has been slippage on some projects and other projects have been adjusted due to change in expenditure and funding requirements.
3. Net revenue Stream (indicator 2) - This indicator represents how much borrowing for the capital programme will cost as a percentage of the net revenue stream. The General Fund indicator at Monitor 2 is 7.00% compared to the budgeted level at 6.98%. The variation between the indicator over the half year period is due to the change in market conditions since the setting of the budget resulting in a reduction in the level of interest to be earned in the year and a slight increase in interest paid on borrowing due to the reprofiling of borrowing to the 2nd and 3rd quarters. The Housing Revenue Account (HRA) version of the indicator at monitor 1 is 3.10% compared to the budgeted level of 3%, the difference is as explained for the General Fund.
4. Incremental Impact on the Level of Council Tax (Indicator 3) – 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 unsupported 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, however in the current economic environment with reduced capital receipts there is the requirement to use unsupported borrowing to support the capital programme, which has an impact on Council Tax. The unsupported borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. At monitor 2 the impact on council tax is estimated at £18.95 per Band D charge. This has decreased from the budget estimate of £19.51 but increased from the Monitor 1

estimate of £12.50. The fluctuation in this forecast is due to the changing position of capital receipts within the Council, whether capital receipts will be realised in the year, the delay in the sale of capital receipts in the current market environment and the resultant increase in unsupported borrowing.

5. Capital Financing Requirement (CFR) (Indicator 5) - The CFR at Monitor 2 is estimated at £122.722m, which is the Council's underlying need to borrow for all capital investment over time. The CFR will fluctuate as new schemes are introduced into the capital programme and the funding position changes (as a result of external contributions, reductions in grants, changes to capital receipts, changes in borrowing etc) to support the Capital investment of the Council. At this time the CFR estimate at monitor 2 is significantly higher than that reported at budget and monitor 1 at £106.464m. This is due to the reduction in capital receipts available during 09/10 to fund the capital programme as explained above in point 4 and the estimation that short term borrowing will be taken to fund the programme instead. In the current market environment it is envisaged that short term borrowing will be taken in light of capital receipts being realised again in the next 2 to 3 years and the interest rate being lower for short term borrowing than for long-term
6. Authorised Limit / Operational Boundary (Indicator 6) – The Council debt position at 1 April 2009 was £102.064m and currently stands at £107.064m. The Council's Operational Boundary (maximum prudent level of debt) was approved at Council as part of the budget set at £145m, along with the Authorised Limit (maximum allowed debt) at £186.m. The headroom available within these limits allows the Council the ability to borrow in advance of need in accordance with its 3 year forecast Capital programme. If these limits were breached the LG Act 2003 requires full Council approval. Debt levels have remained within the limits set.
7. Adoption of the CIPFA Code of Practice in Treasury Management (Indicator 7) – In accordance with the Prudential Code the Council has adopted the Treasury Management Code of Practice and as detailed in the table has adhered to the requirements.
8. Upper Limit for Fixed and Variable Interest rate Exposure (Indicator 8) – 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%. If the majority of the interest received by the Council is fixed and the interest paid on debt is fixed then the closer the actual fixed interest rate exposure will be to 100% and the variable rate exposure to zero. The limits set in the budget were not breached and at Monitor 2 fixed rate exposure was at 118% and variable rate exposure –18%.
9. Upper Limit for total principal sums invested for over 364 days (Indicator 9) – This has been set at £10m and is approximately 25% of the total portfolio. To date in 09/10, no funds have been invested for longer than 364 days due to the uncertainty in the current economic environment and no value to be obtained from longer rates.
10. Maturity Structure of Fixed rate Borrowing in 2009/10 (Indicator 10) – 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. Currently in 09/10 the borrowing portfolio maturity profile is within the limits set.