

Annex A

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PRUDENTIAL INDICATORS – Monitor 1 2010/11		2010/11 Budget	2010/11 Monitor 1
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 HRA TOTAL	£'000 £'000 66,116 73,374 6,908 8,158 63,990 67,034
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 HRA	9.30% 9.33% 3.11% 1.97%
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 £ p 19.49 14.86
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 £ p 0.00 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 HRA TOTAL	128,483 134,454 12,610 13,235 141,093 147,688
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	187 187 0 0 187 187
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	167 167 0 0 167 167
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 Actual Net interest re fixed rate borrowing / investments	108% 108% 122% 122%

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	-8%	-8%	
		Actual Net interest re variable rate borrowing / investments	-22%	-22%	
9)	Upper limit for total principal sums invested for over 364 days				
	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.		£10,000	£10,000	
10)	Maturity structure of new fixed rate borrowing during 2010/11				
	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.		Upper Limit	Lower Limit	Mon 1
		under 12 months	10%	0%	4%
		12 months and within 24 months	10%	0%	2%
		24 months and within 5 years	25%	0%	7%
		5 years and within 10 years	40%	0%	24%
		10 years and above	90%	30%	63%

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 25th February 2010 for the financial year 2010/11 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 1 was estimated to be £81.532m and in the original budget was £73.024m. The increase is detailed further in the Capital Programme Monitor 1.
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 1 is 9.33% compared to a budgeted level of 9.30%. This indicator is an increase from 2009/10 of 2.35% due to the increased borrowing undertaken in 2009/10 in replace of capital receipts, which affects the provision to repay debt in 2010/11 and also the interest paid on increased borrowing in 2010/11 mainly due to the Administrative Accommodation project. The Housing Revenue Account (HRA) version of the indicator at monitor 1 is 1.97% compared to the budgeted level of 3.11%, the difference is due to lower amount of interest to be paid on debt in relation to the HRA than originally anticipated.
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 1 the impact on council tax is estimated at £14.86 per Band D charge. This has decreased from the estimate of £19.49 due to the interest paid on new borrowing during 2010/11 being lower than expected in the budget. Borrowing rates have fallen due to the sentiment on the market that the economy is weak and a risk of a double dip recession.

5. **Capital Financing Requirement (CFR) (Indicator 5)** - The CFR at Monitor 1 is estimated at £147.688m, 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 etc) to support the Capital investment of the Council. The budget announcement on 22 June 2010 reduced £1.5m external grant funding in relation to the Local Transport Plan, however the capital expenditure has also been cut so as not to impact the borrowing requirement.
6. **Authorised Limit / Operational Boundary (Indicator 6)** – The Council debt position at 1 April 2009 was £116.064m and currently stands at £133.064m. The Council's Operational Boundary (maximum prudent level of debt) was approved at Council as part of the budget set at £167m, along with the Authorised Limit (maximum allowed debt) at £187.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 revised Treasury Management Code of Practice on 25 February 2010 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 on borrowing 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 1 fixed rate exposure was at 122% and variable rate exposure –22%.
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 2010/11, 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 2010/11 (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 2010/11 the borrowing portfolio maturity profile is within the limits set.