Annex A

	PRUDENTIAL INDICATORS Monitor 3 2011/12 AND REVISED BUDGET HRA REFORM		2011/12 REVISED Budget	2011/12 Monitor 3
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	61,4	48.2
		HRA	122,7	131.8
		TOTAL	184,1	180.0
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	10.1%	7.7%
		HRA	2.1%	2.4%
3	**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	24.09	19.81

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.		£ p	£ p
		Increase in average housing rent per week	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	162.0	150.8
		HRA	130.8	140.4
		TOTAL	292.8	291.1
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	337.0	337.0
		other long term liabilities	10	10
		TOTAL	347	347

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	317 10 327	317 10 327
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	110%	104%

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	-10%	-4%
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 M	£10 M

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	Mon 3
		under 12 months	10%	0%
		12 months and within 24 months	10%	2%
		24 months and within 5 years	25%	5%
		5 years and within 10 years	40%	27%
		10 years and above	90%	66%

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 24th February 2011 for the financial year 2011/12 must be monitored and reported through the financial year. The HRA reform and the requirement to borrow an additional £121.6m has changed key indicator. 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 3 is estimated at £180.0m the revised budget which includes and estimate for the HRA settlement payment budget was £184.1m. The Capital Programme Monitor 3 report provides further information with regards to the movements. The HRA Reform increase the HRA Capital Expenditure by £121.6m, therefore the total capital expenditure now stands at £180.0m

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 3 is 7.7% compared to a budgeted level of 10.1%. The indicator has decreased as the capital expenditure of the Council has decreased and less borrowing is required. The Housing Revenue Account (HRA) indictor at monitor 3 is 2.4% compared to the budgeted

level of 2.1%. There is little change even though the there is to be a £121.6m settlement payment to the Government on 28 March 2012. For the year 2011/12 the HRA subsidy system remains in place and therefore there is no change to the Net Revenue Stream.

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 funds 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, however in the current economic environment with reduced capital receipts there is the requirement to use borrowing, which has an impact on Council Tax. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. At monitor 3 the impact on council tax is estimated at £19.81 per Band D charge. This has decreased from the estimate of £24.09 due a lower level of borrowing being required to support the capital programme, which is in line with indicator 2.

5. **Incremental Impact on the Level of Housing Rents (Indicator 4) –** The estimate in the original 2011/12 strategy, monitor 2 and the revised HRA reform indicator are all zero. This is because even though the level of this indicator changes, the level of housing rent is not affected as housing rent is set in accordance with government formula.

6. **Capital Financing Requirement (CFR) (Indicator 5)** - The CFR at Monitor 3 is estimated at £291.1m, which is the Council's underlying need to borrow for all capital expenditure 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.

7. The CFR under the HRA Reform has increased in line with the increased capital expenditure requirement of £121.6m. Therefore the revised CFR to incorporate the HRA reforms is £291.1m. It should be noted that the level of the HRA settlement has risen from that reported at monitor 2 from £112m to £121.6m. This decision is a change in the Department of Communities and Local Government calculation to take account of inflation. The CFR overall remains at the same level at £291.1m which confirms the CFR for the non-HRA element has fallen.

8. **Authorised Limit / Operational Boundary (Indicator 6)** – The Council debt position at 31 December 2011 stands at £140.1m. The Council's Operational Boundary (maximum prudent level of debt) was revised at Monitor 2 and approved at £327m,along with the Authorised Limit (maximum allowed debt) at £347m. This is as a result of the change in the borrowing required under the HRA reform. These limits remain as approved for 2011/12.

9. **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 24 February 2011 and as detailed in the table has adhered to the requirements.

10. **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 3 fixed rate exposure was at 14% and variable rate exposure –4%. The HRA reform does not affect this indicator

11. **Upper Limit for total principal sums invested for over 364 days (Indicator 9)** – This has been set at £10m, 20% of the total average investment portfolio. To date in 2011/12, 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 the longer rates available to the council within its credit criteria limits.

12. **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 2011/12 the borrowing portfolio maturity profile is within the limits set. Under the HRA reform, further work is to be carried out with Housing Services to review the HRA business model and assess the optimal profile for when borrowing is to be taken. At this stage it is estimated that the current limits will allow for the requirements of the HRA reform borrowing maturity profile.