APPENDIX 8

PRUDENTIAL INDICATORS

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well defined limits.

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

A Capital Expenditure

The Authority has to make a reasonable estimate of the capital expenditure that it plans to incur in the following three years and after the year-end must record the actual capital expenditure incurred in that year.

The Authority's capital programme informs the requirements of these indicators. The actual capital expenditure that was incurred by the authority in 2012-13, the revised estimate for the current and estimates for the future years are as follows:

2012-13 Actual £000	**2013-14** Estimate £000	**Capital Expenditure**	**2014-15** Estimate £000	**2015-16** Estimate £000	**2016-17** Estimate £000
1,889	932	Total Capital Expenditure	10,100	7,966	2,218

B Capital financing cost indicators

One of the indicators of affordability is the estimated ratio of the Authority's general fund capital financing costs to its net revenue stream in percentage terms. This indicator shows the proportion of the revenue budget spent on capital financing costs; if the ratio is increasing rapidly over time then a larger proportion of revenue resources is being taken up by capital financing costs, which could be used for other elements of the Authority's budget.

For 2014-15, net revenue streams are based on the MTFP draft general fund (GF). For future years, the GF net revenue stream is projected in the Authority's MTFP.

2012-13 Actual %	**2013-14 Estimate %**	**Ratio of financing costs to net revenue stream**	**2014-15 Estimate %**	**2015-16 Estimate %**	**2016-17 Estimate %**
1.47	1.62	% of Revenue Budget	1.48	2.40	3.11

C Impact on Council Tax

This indicator shows the impact of capital investment decisions on Council Tax. The indicator shows the marginal increase in Council Tax per Band D property as a result of capital financing costs.

2012-13 Actual £	**2013-14** Estimate £	**Impact of financing costs on Band D Council Tax**	**2014-15** Estimate £	**2015-16** Estimate £	**2016-17** Estimate £
0.00	0.01		0.01	0.02	0.01

D Capital Financing Requirement

The Capital Financing Requirement (CFR) indicator is a notional figure which shows the Authority's theoretical need to borrow to fund capital expenditure. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes.

The estimate of additional capital financing requirement for the next three years is approximately £9,801k, giving a total CFR of some £19,214k.

2012-13 Actual £000	**2013-14 Estimate £000**	**Capital Financing Requirement**	**2014-15 Estimate £000**	**2015-16 Estimate £000**	**2016-17 Estimate £000**
10,813	**10,089**	Opening CFR	**9,413**	**14,899**	**18,452**
		Movement in CFR represented by			
0	**0**	Net financing need for the year	**6,117**	**4,551**	**1,998**
724	**676**	Less financing movements	**631**	**998**	**1,236**
724	**676**	**Movement in CFR**	**5,486**	**3,553**	**762**
10,089	**9,413**	Closing CFR	**14,899**	**18,452**	**19,214**

E Gross Borrowing Requirement

There is a clear linkage between the Authority's capital financing requirement indicators and its gross external borrowing. Within the code there is a key indicator of prudence that ensures that, over the medium term, gross borrowing is only for a capital purpose. This can be demonstrated by comparing gross external borrowing shown in the table below to the total CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. Gross external borrowing should not exceed this limit except in the short term. The table below shows the estimated carried forward each year.

2012-13 Actual £000	2013-14 Estimate £000	Current Portfolio Position	2014-15 Estimate £000	2015-16 Estimate £000	2016-17 Estimate £000
		External Debt			
5,859	3,346	Debt at 1 April	2,218	2,214	2,214
(2,513)	(1,126)	Expected change in Debt	(4)	0	878
3,346	2,218	External Debt at 31 March	2,214	2,214	3,092
0	0	Other long-term liabilities (OLTL)	0	0	0
0	0	Expected change in OLTL	0	0	0
3,346	2,218	Actual Gross Debt at 31 March	2,214	2,214	3,092
10,089	9,413	Capital Financing Requirement	14,899	18,452	19,214
6,743	**7,195**	**Under / (over) borrowing**	**12,685**	**10,472**	**16,122**

F Authorised Limit for External Debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Authority has to set an Authorised Limit, which is the statutory maximum borrowing permitted, and an Operational Boundary, which is the normal level of borrowing expected, for external debt.

The Authorised Limits set out below are consistent with the authority's current commitments, existing plans and the proposals set out in this report for the capital expenditure and financing, and with its approved treasury policy statement and practices. They are based on the most likely, prudent, but not worse case scenario, with sufficient headroom over and above this to allow for operational management recognising that during the year it may be necessary to exceed the operational boundary in order to take advantage of interest rate movements or to accommodate unusual cash flow movements.

2012-13 Actual £000	**2013-14 Estimate £000**	**Authorised Limit for External Debt**	**2014-15 Estimate £000**	**2015-16 Estimate £000**	**2016-17 Estimate £000**
4,214	4,218	Borrowing	4,218	4,218	5,092
0	0	Other Long Term Liabilities	0	0	0
4,214	**4,218**	**Total Authorised Limit**	**4,218**	**4,218**	**5,092**

In agreeing these limits, it should be noted that the Authorised Limit for 2014-15 will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003. This indicator being the maximum limit the Authority may borrow at any point in time in the year. If borrowing above this level were needed a report would go to the Authority for authorisation to increase the limit.

G Operational Boundary for External Debt

The operational boundary is a key management tool for in-year monitoring. Temporary breach of the operational boundary will not in itself be a cause for concern, although a sustained breach might indicate an underlying issue that would need investigation and action.

The operational boundaries below are based on the Authorised Limit, estimating the authority's most likely level of borrowing and leasing each year. It includes long term borrowing to fund capital and short term borrowing to meet day to day variations in cash flow but without the additional headroom.

2012-13 Actual £000	2013-14 Estimate £000	Operational Boundary	2014-15 Estimate £000	2015-16 Estimate £000	2016-17 Estimate £000
2,218	2,218	Debt	2,218	2,218	3,092
0	0	Other long term liabilities	0	0	0
2,218	**2,218**	**Total**	**2,218**	**2,218**	**3,092**

H Maturity structure of debt

It is recommended that the Authority sets upper and lower limits for the maturity structure of its debt for the forthcoming year as follows:

Maturity Structure of Council Borrowing	Upper Limit %	Lower Limit %
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	35	0
5 years and 10 years	60	0
10 years and above	100	30

The above percentages are the ranges for the projected borrowing maturing in each year out of the total projected borrowing. The indicator is designed to be a control over the Authority having large concentrations of fixed interest rate debt needing to be replaced at any one time and thus being at risk of having to borrow large amounts when interest rates may be unfavourable.

I Fixed interest rate exposure

The table below shows the Authority's upper limit for fixed interest rate exposure for the next three years. This indicator shows the percentage of borrowing that can be undertaken at fixed interest rates. Up to 100% of borrowing can be at fixed interest rates. This indicator is set at levels to reduce the risk from interest rate movements.

Upper Limit – Fixed Interest Rate Exposure	**2014-15 %**	**2015-16 %**	**2016-17 %**
Fixed Interest Rates	100	100	100

J Variable interest rate exposure

The following indicator shows the percentage of borrowing that can be undertaken at variable interest rates. The purpose of the indicator is to restrict variable rate borrowing in order to reduce the risk from sudden movements in interest rates. The Authority sets its upper limit for borrowing, reflecting variable interest rates less investments that are variable rate investments at 40%.

Upper Limit – Variable Interest Rate Exposure	**2014-15 %**	**2015-16 %**	**2016-17 %**
Variable Interest Rates	40	40	40

Currently 100% of the borrowing is fixed rate.

K Investment periods

It is recommended that the Authority sets a limit on the amount invested for periods longer than one year of £5m in total for 2014-15, with the maximum period for any one loan being three years. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper Limit for Total Principal Sums Invested for over 364 days	**2014-15 Estimate £m**	**2015-16 Estimate £m**	**2016-17 Estimate £m**
External Debt	5	5	5