Appendix A

CIPFA Prudential Indicators

The indicators set out below are specified in the CIPFA *Prudential Code for Capital Finance in Local Authorities* ("the Code"), which is required to be complied with as "proper practice" by Regulations issued consequent to the Local Government Act 2003. They are required to be set and revised through the process established for the setting and revising of the budget, i.e. by full Council following recommendation by the Cabinet. Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year, but may be revised at any time following due process.

The first group of indicators (1-5) are essentially concerned with the prudence and affordability of the Council's capital expenditure and borrowing plans in the light of resource constraints.

The remaining indicators (6-10) are primarily concerned with day-to-day borrowing and treasury management activity. These also form part of the council's Treasury Strategy Statement for 2008/09 being considered by the Audit Committee on 14th February.

The proposed figures for each indicator have been developed in the light of the Council's overall resource position and medium term financial strategy and have regard to the following matters as required by the Code:

Affordability;
Prudence and Sustainability;
Value for Money;
Stewardship of Assets;
Service Objectives;
Practicality.

Affordability and prudence are specifically addressed by the indicators set out below. The other matters listed form a fundamental part of the Council's budget setting, management and monitoring procedures - as summarised in the Financial Management Regime (FMR) which forms part of the Constitution - and with particular relevance to capital expenditure, set out in more detail in the Council's Capital Strategy and Asset Management Plan.

Appropriate procedures have been established for proper management, monitoring and reporting in respect of all the indicators, and the risks associated therewith.

Indicators set for 2007/08, 2008/09 and 2009/10 this time last year have been reviewed and where necessary are proposed to be updated to reflect latest forecasts.

1. Estimated and Actual Capital Expenditure

This indicator forms the background to all the other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment. Estimated capital expenditure is required to be calculated for the next 3 financial years, and actual expenditure stated for the previous financial year, with totals split between HRA and non-HRA capital expenditure.

Subject to the other proposals in this report being agreed (together with those relating to public sector housing capital expenditure contained in the relevant report elsewhere on the agenda) the proposed indicators are as follows.

	2006/07 £m Actual	2007/08 £m Revised Estimate	2008/09 £m Revised Estimate	2009/10 £m Revised Estimate	2010/11 £m Estimate
Non - HRA	79.6	74.3	76.7	44.0	44.1
HRA	21.9	27.8	27.0	25.6	25.9
Total	**101.5**	**102.1**	**103.7**	**69.6**	**70.0**

2. Estimated and Actual Capital Financing Requirement (CFR)

The Capital Financing Requirement is a measure of the Council's underlying need to borrow to fund its capital expenditure once other sources of funding - grants, capital receipts and revenue - have been taken into account. The CFR increases when expenditure is incurred, and reduces when provision is made to repay debt.

The proposed indicators consistent with the level of capital expenditure set out above are as follows.

	2006/07 £m Actual	2007/08 £m Revised Estimate	2008/09 £m Revised Estimate	2009/10 £m Revised Estimate	2010/11 £m Estimate
Non - HRA	245.7	269.1	280.2	282.0	280.0
HRA	53.5	59.1	62.6	68.2	73.8
Total	**299.2**	**328.2**	**342.8**	**350.2**	**353.8**

3. Net Borrowing and the Capital Financing Requirement.

In order to ensure that in the medium term, borrowing can be undertaken only for capital purposes, this indicator requires that net external borrowing does not (except in the short term) exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

It is anticipated that this requirement will be met for the years 2007/08 to 2010/11.

4. Estimate of the Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on levels of Council Tax and Housing Rents.

The current proposals to undertake new unsupported “prudential borrowing” to fund capital investment are set out in paragraph 25 of the report. The forecast debt charges resulting from anticipated borrowing are fully reflected in the figures set out in the budget strategy report elsewhere on this agenda. The impact on Council Tax of these proposals is as follows.

	2008/09 £	**2009/10 £**	**2010/11 £**
Increase in Band D Council Tax	4.42	4.51	4.60

The anticipated prudential borrowing to fund the capitalised costs of Single Status back-pay will reduce pressure on Council Tax and free up resources required to meet spending priorities.

There are no proposals to use further Prudential Borrowing within the Public Sector Housing Investment Programme. In any case, the estimated incremental impact of Housing capital investment proposals (set out in the relevant report elsewhere on this agenda) on Housing Rents is zero. This is based on the fact that rents are determined by government rent restructuring guidance and assumes that the Council will continue to comply with this guidance. Borrowing forecasts have been set at levels which will not necessitate a rent increase above guidelines.

5. Estimated and Actual Ratio of Capital Financing Costs to Net Revenue Stream

This indicator is intended to demonstrate the affordability of capital investment decisions in terms of the ratio of capital financing costs to overall resources, expressed as a percentage. The proposed indicators consistent with the level of capital expenditure set out above are as follows.

	2006/07 % Actual	**2007/08 % Revised Estimate**	**2008/09 % Revised Estimate**	**2009/10 % Revised Estimate**	**2010/11 % Estimate**
Non - HRA	6.5	8.2	9.2	9.8	9.6
HRA	3.9	4.4	5.0	5.3	5.7

6. The Authorised Limit, Operational Boundary, and Actual External Debt

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The Authorised Limit for external debt is a statutory limit (as per. section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the Council’s capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it will be necessary for the Council to determine if it is prudent to raise the limit, or to instigate procedures to ensure that such a breach does not occur.

The Operational Boundary for external debt is a management tool for day-to day monitoring, and has also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

Both the Authorised Limit and the Operational Boundary are split between conventional borrowing and "other long term liabilities" such as leases and other capital financing arrangements which would result in the related assets appearing on the Council's Balance Sheet. Such arrangements would include for example finance leases for the procurement of vehicles. Provided that the total Authorised Limit and Operational Boundary are not exceeded, the Director of Finance may authorise movement between the constituent elements within each total so long as such changes are reported to the next appropriate meeting of the Cabinet and Council.

It is not considered necessary to amend the Authorised Limit and Operational Boundary for 2007/08 set this time last year.

	2006/07	**2007/08**	**2008/09 Revised**	**2009/10 Revised**	**2010/11**
	£m	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt:					
Borrowing	n/a	538	590	592	591
Other long term liabilities	n/a	5	6	7	7
Total	**n/a**	**543**	**596**	**599**	**598**
Operational boundary:					
Borrowing	n/a	473	518	518	510
other long term liabilities	n/a	5	6	7	7
Total	**n/a**	**478**	**524**	**525**	**517**
Actual External Debt:					
Borrowing	407.3	n/a	n/a	n/a	n/a
Other long term liabilities	1.9	n/a	n/a	n/a	n/a
Total	**409.3**	**n/a**	**n/a**	**n/a**	**n/a**

7. Adoption of the CIPFA *Code of Practice for Treasury Management in the Public Services*

This indicator is a fundamental requirement of the new system in so far as it relates to treasury management activity. The Council adopted the CIPFA *Code of Practice for Treasury Management in the Public Services* in March 2002.

8. Upper Limits on Fixed Interest Rate and Variable Interest Rate Exposures

These indicators relate to the percentage of net borrowing (gross borrowing less investments) held at fixed or variable interest rates, and allow the Council to manage the extent to which it is exposed to changes in interest rates. The proposed upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The proposed upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments. It is not considered necessary to amend the limits for 2007/08 set this time last year.

	2007/08 %	2008/09 % Revised	2009/10 % Revised	2010/11 %
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	30	15	15	15

9. Upper and Lower Limits for the Maturity Structure of Borrowing

The indicator for the maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years. On the basis of prudent treasury management, the following limits are proposed:

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

10. Limits for Principal Sums Invested for Periods Longer than 364 Days

The purpose of the prudential limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is (as last year) £15m.