Appendix 1

Treasury Management Strategy - Prudential Indicators – Forecast Outturn as at 24th October 2012

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

(a) capital expenditure plans are affordable,

(b) all external borrowing and other long term liabilities are within prudent and sustainable levels;

(c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the forthcoming financial year and at least the following two financial years. The Council has set out indicators for the next 10 financial years in line with setting a 10 year budget. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy. The actual outturn for the Prudential Indicators for the financial year to date is detailed below. The indicators include the Invest to Save scheme however the costs of borrowing associated with the scheme will be offset by the income generated.

The 2012/13 Prudential Indicators are shown below and the Council's performance to date against them. All performance is within the limits.

1. **Indicator 1: Capital Expenditure**

   This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.

Capital Expenditure	2012/13 Indicator	2012/13 Actual @30.09.12	2012/13 Forecast Outturn
Capital Expenditure	£144.6m	£39.4m	£130.9m
Invest to Save	£100.0m	£1.9m	£3.2m
Total	**£244.6m**	**£41.3m**	**£134.1m**

£96.8m of the budget for the Invest to Save scheme has slipped into 2013/14 as no new projects are due to start this financial year.

2. **Indicator 2: Capital Financing Requirement (CFR)**

The CFR measures the Council's underlying need to borrow money in the long term for capital purposes. Any capital expenditure which has not immediately been paid for will increase the CFR.

Capital Financing Requirement	**2012/13 Indicator**	**2012/13 Actual @30.09.12**	**2012/13 Forecast Outturn**
CFR b/fwd	£268.4m	£250.2m	£250.2m
Borrowing	£62.2m	£13.2m	£70.8m
Invest to Save	£100.0m	£1.9m	£3.2m
Total CFR C/fwd	**£433.6m**	**£265.3m**	**£324.2m**

3. **Indicator 3: Actuals and estimates of the ratio of financing costs to net revenue budget**

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

Ratio of net financing costs to net revenue stream	**2012/13 Indicator**	**2012/13 Actual @30.09.12**	**2012/13 Forecast Outturn**
Core Capital Programme	5.3%	4.7%	4.9%
Invest to Save	0.6%	0.1%	0.1%
Financing costs to net revenue stream	**5.9%**	**4.8%**	**5.0%**

The actual and forecast outturn are less than the indicator due to lower PWLB interest rates than those quoted in the Medium Term Financial Strategy (MTFS). The forecast rates for PWLB include the certainty discount rate of 0.20 b.p.s which the Council is eligible to receive on new borrowings from November 2012.

4. **Indicator 4: Actuals and estimates of the incremental impact of capital investment on Council Tax.**

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done of the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Taxbase for the year, and performance is shown in the table overleaf.

The incremental impact is less than the indicator due to the reduction in the CFR budget required to finance the capital programme. The cost of borrowing has reduced due to the revision of interest rates downwards from the original MTFS, (see indicator 3 for explanation). The impact for the invest to save scheme is shown in the figures however the costs of borrowing for this scheme will be offset by the income generated in the future.

Incremental impact on capital investment decisions on Council Tax		2012/13 Indicator	2012/13 Actual @30.09.12	2012/13 Forecast Outturn
A	CFR budget - previous MTFS	£17,319k	£17,319k	£17,319k
B	CFR budget – current MTFS	£17,602k	£13,304k	£14,315k
C	Incremental change (B - A)	£283k	(£4,015k)	(£3,004)
D	Council Tax Base (1,000's)	56.51	56.51	56.51
	Total Incremental Impact (C / D)	**£5.01**	**(£71.05)**	**(£53.16)**
	Split:			
	Core Capital Programme	(£33.93)	(£70.57)	(£52.06)
	Invest to Save	£38.94	(£0.48)	(£1.10)

5. Indicators 5: Proportion of Net Debt to the CFR

This indicator shows the proportion of the Council's external borrowings less investments (Net Debt) against the CFR. Please note this indicator has been revised from the indicator in the Treasury Management Strategy 2012/13 and it now includes the % of the net debt to the CFR as per the revision of the Prudential Code.

Proportion of Net Debt to the CFR	2012/13 Indicator	2012/13 Actual @30.09.12	2012/13 Forecast Outturn
CFR	£433.6m	£265.3m	£324.2m
Net Debt	£365.3m	£203.9m	£248.1m
% of Net Debt to CFR	**84.3%**	**76.9%**	**76.5%**

6. Indicator 6: The Operational Boundary

The Operational Boundary is a measure of the day to day likely borrowing for the Council. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

This indicator takes into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicator provides flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure. The forecast outturn does not represent the actual debt position at year end.

Operational Boundary	2012/13 Indicator	2012/13 Actual @30.09.12	2012/13 Forecast Outturn
Borrowing b/fwd	£215.6m	£186.5m	£186.5m
Borrowing - Capital	£128.0m	£28.2m	£70.8m
Invest to Save	£100.0m	£1.4m	£3.2m
Total Operational Boundary	**£443.6m**	**£216.1m**	**£260.5m**

7. **Indicator 7: The Authorised Limit**

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

The actual borrowing figure is made up of £132.9m of fixed rate long term borrowing, £42.0m of temporary fixed rate borrowing and £41.2m of other long term liabilities (leases and PFI).

Authorised Limit	**2012/13 Indicator**	**2012/13 Actual @30.09.12**	**2012/13 Forecast Outturn**
Borrowing b/fwd	£215.6m	£186.5m	£186.5m
Borrowing - Capital	£223.9m	£28.2m	£70.8m
Invest to Save	£96.9m	£1.4m	£3.2m
Total Authorised Limit	**£536.4m**	**£216.1m**	**£260.5m**

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year.

8. **Indicator 8: Variable interest rate exposure**

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR).

The limit is expressed as the value of total borrowing less investments

Upper limit for variable rate exposure	**2012/13 Indicator**	**2012/13 Actual @30.09.12**	**2012/13 Forecast Outturn**
Borrowing - Capital	£99.6m	£0.0m	£0.0m
Invest to Save	£24.2m	£0.0m	£0.0m
Total upper limit for variable rate exposure	**£123.8m**	**£0.0m**	**£0.0m**

The indicator for actual and forecast outturn is zero due to the current borrowing strategy of borrowing only at a fixed interest rate in the current economic climate of low interest rates. Borrowing at fixed interest rates provides budget certainty for the Council.

9. **Indicator 9: Fixed Interest rate exposure**

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	**2012/13 Indicator**	**2012/13 Actual @30.09.12**	**2012/13 Forecast Outturn**
Borrowing b/fwd	£215.6m	£142.9m	£142.9m
Borrowing - Capital	£224.0m	£30.6m	£70.8m
Invest to Save	£96.8m	£1.4m	£3.2m
Total upper limit for fixed rate exposure	**£536.4m**	**£174.9m**	**£216.9m**

10. **Indicator 10: Maturity structure of borrowing**

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

Period	**Upper Limit Estimate**	**Actual Borrowing Sep 12**	**Actual Borrowing Sep 12**
Under 12 months	40%	34%	£59.5m
1 - 2 years	40%	0%	£0.0m
2 - 5 years	80%	0%	£0.0m
5 - 10 years	80%	1%	£1.1m
over 10 years	100%	65%	£114.3m
Total Borrowing			**£174.9m**

11. **Indicator 11: Total Investments for periods longer than 364 days**

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

	2012/13 Indicator £m	**2012/13 Actual @30.09.12 £m**	**2012/13 Forecast Outturn £m**
Principal sums invested >364 days	3.0	0.0	0.0

This indicator reflects the Council's current lending policy of keeping investments short term for liquidity purposes. Also the Council has run down its cash balances over the last three financial years as an alternative to new borrowing and does not have the available cash balances to invest for long periods.

This page is intentionally left blank