Prudential Indicators for 2008/09

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 each authority to set a range of Prudential Indicators for the next financial year and the two succeeding ones. In this appendix, the Indicators applicable for 2008/09 are set out, together with, where applicable, any impact on 2009/10.

1. Indicator: Estimated and Actual Capital Expenditure 2008/09

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

Estimate	£76.0m (Medium Term Financial Strategy 27 February 2008)
Expected	£73.5m (Medium Term Financial Strategy 25 February 2009)
Actual	£57.8m

2. Indicator: Prudential Indicators of Affordability

Affordability (1): Indicator: Ratio of financing costs to net revenue stream

The net revenue stream is the authority's net revenue budget funded from Council Tax and Government grants. The actual revenue financing was £263.2m, including DSG. Actual financing costs were £11.5m. Ratio:

Estimate 2008/09	4.20%
Actual 2008/09	4.36%

Affordability (2): Indicator: Impact 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:

	Gross capital financing & running costs £'000	Council Taxbase Band D	Impact on Council Tax £
Estimate 2008/09	1,784	54,231	32.89
Actual 2008/09	(1,043)	54,245	(19.23)

3. Indicator: Estimated Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet. The table below shows the base estimate CFR for 2008/09, the projected CFR for 2008/09 and the actual year-end figure.

	CFR
Estimate 2008/09	£140.5m
Expected 2008/09	£146.7m
Actual 2008/09	£145.9m

The Council is required to make a "minimum revenue provision" (MRP) for repayment of debt which must be charged to a local authority's Income and Expenditure Account and set aside for this purpose. A new statutory duty introduced in 2008 requires the local authority to determine an amount of MRP that it considers to be prudent. Previously local authorities were obliged to set aside a MRP at a fixed rate of 4% of the Capital Financing Requirement (CFR) outstanding at the beginning of each financial year.

Effective from 2008/09 the Council adopted a method of calculating MRP as follows:

- Historic Capital Financing Requirement (debt liability) incurred prior to 1st April 2007, and supported borrowing (by grant) since then, is charged at 4%;
- expenditure funded by unsupported borrowing within the debt liability at 31st March 2008, and subsequent years, is charged by equal annual instalments over the estimated life of the asset created.

4. Indicators: Authorised Limit and Operational Boundary for External Debt

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 Limits for External Debt:

Authorised Limits 2008/09:

£194m for borrowing, and

£2m for other long term liabilities.

Operational Boundary 2008/09:

£150m for borrowing, and

£1m for other long term liabilities.

Actual 2008/09:

£134.5 for borrowing, and

£59k for other long term liabilities.

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.

"Other long term liabilities" include items that would appear on the balance sheet of the Council under that heading. For example, the capital cost of finance leases would be included.

The Operational Boundary is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. 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, as a potential symptom of a more serious financial problem.

5. **Indicator: Adoption of the CIPFA Code of Treasury Management in the Public Services**

The Council adopted the CIPFA Code of Treasury Management in the Public Services in 2002. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.

6. **Indicator: Interest Rate Exposure**

This group of indicators is designed to ensure that the Council limits its exposure to the effects of changes in interest rates. These prudential indicators relate to both fixed interest rates and variable interest rates and are referred to respectively as the upper limits on fixed and variable interest rate exposures. There is no requirement in the code to set lower limits; however, given the risks associated with having excessively high relatively short fixed, or variable rate borrowing, lower limits are set locally for longer maturing fixed rate borrowing.

<u>Variable Rate Exposure</u>

The limit (expressed as the value of total borrowing less investments) was as follows:

Upper Limit 2008/09	
Estimate £m	Actual £m
35.0	0

<u>Fixed Interest Rate Exposure</u>

The limit (expressed as the value of total borrowing less investments) was as follows:

	Upper Limit 2008/09	
	Estimate £m	Actual £m
Borrowing	194.0	134.5
Investment	-	(48.5)
Net Borrowing	**194.0**	**86.0**

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.

7. **Indicator: Prudential limits for the 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**	**Lower Limit Estimate**	**Actual**
Under 12 months	30%	0%	13%
1 - 2 years	30%	0%	0%
2 - 5 years	75%	0%	1%
5 - 10 years	80%	0%	0%
over 10 years	100%	10%	86%

8. **Indicator: Limit on Principal Sums Invested for Periods Longer than 364 Days**

Authorities are able to invest for longer than 364 days, which 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.

The limit on the amount of investments deposited for more than 1 year:

Approved Amount £25.0 million.

Actual (at 31st March 2009) £7.0 million.

The approved limit was not exceeded during the year.

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