Appendix A

Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at 30th September 2013

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 and forecast outturn for the Prudential Indicators for the financial year 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 by these projects.

The 2013/14 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	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
Capital Expenditure	£155.2m	£39.3m	£154.3m
Invest to Save	£96.8m	£0.5m	£4.1m
Total	**£252.0m**	**£39.8M**	**£158.4m**

The position shows the forecast as at 30th September 2013. The forecast is revised every month. The Council continues to seek opportunities for invest to save schemes. If any new opportunities are identified the forecast outturn will be revised accordingly.

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	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
CFR b/fwd	£318.0m	£316.1m	£316.1m
Borrowing	£105.9m	£15.5m	£102.0m
Invest to Save	£96.8m	£0.5m	£4.1m
Total CFR C/fwd	**£520.7m**	**£332.1m**	**£422.2m**

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	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
Total Ratio	7.2%	5.6%	6.0%

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 is financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget for the Medium Term Financial Strategy (MTFS). The revenue costs are divided by the estimated Council Tax base for the year, and performance is shown in the table below.

Incremental impact on capital investment decisions on Council Tax	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
A CFR Budget-Previous MTFS	£19,187k	£17,628k	£17,628k
B CFR Budget-Current	£17,628k	£15,918k	£17,169k
C Incremental change (B-A)	(£1,559k)	(£1,710k)	(£459k)
D Council Tax Base (1,000’s)	50.16	50.16	50.16
Total Incremental Impact (C/D)	(£31.09)	(£34.09)	(£9.15)

The actual incremental impact to date is less than the indicator as the Council has taken new short term borrowing (less than 5 years) during the financial year so far. This borrowing has been taken from other Local Authorities which are at rates lower than the Public Works Loan Board (PWLB) rates quoted in the MTFS.

The forecast outturn incremental impact is higher than the indicator due to the revision of PWLB interest rates during the year which are greater than the original MTFS rate assumptions. The increase in rates of PWLB loans available will increase the borrowing costs and hence impact on the revenue budget. 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 from these schemes.

5. **Indicators 5: Proportion of Gross Debt to the CFR**

This indicator shows the proportion of the Council's external borrowings (Gross Debt) against the CFR.

Proportion of Gross Debt to the CFR	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
CFR	£521.6m	£332.1m	£422.1m
Gross Debt	£443.9m	£266.9m	£357.0m
% of Gross Debt to CFR	**85.1%**	**80.4%**	**84.6%**

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.

Operational Boundary	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
Borrowing	£653.1m	£224.8m	£314.9m
Other Long Term Liabilities	£39.6m	£42.1m	£42.1m
Total Operational Boundary	**£692.7m**	**£266.9m**	**£357.0m**

The figure for Other Long Term Liabilities has increased by £2.5m since the indicator was set due to new leases added at the 2012/13 year end. This represents the total cost of the assets leased over the full life of those leases.

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.

Authorised Limit	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
Borrowing	£668.8m	£224.8m	£314.9m
Other Long Term Liabilities	£39.6m	£42.1m	£42.1m
Total Authorised Limit	**£708.4m**	**£266.9m**	**£357.0m**

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. The forecast outturn is lower than the indicator as the Council does not anticipate to borrow in advance of need as PWLB rates are not favourable to exercise this option.

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	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
Upper Limit	£174.6m	£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 volatile 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	2013/14 Indicator	2013/14 Actual @30.09.13	2013/14 Forecast Outturn
Upper Limit	£698.4m	£224.8m	£314.9m

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 borrowing that the Council has actually taken up to the end of September is £221.9m (shown in the indicator below). This differs from the operational boundary figure of £224.8m (as per previous indicator) due to the timing of cash flow fluctuations. The limits are as follows:

Period	Upper Limit Indicator	Actual Borrowing @30.09.13	Actual Borrowing @30.09.13
Under 12 months*	40%	17%	£37.5m
1 – 2 years	40%	11%	£24.0m
2 – 5 years	80%	11%	£24.0m
5 – 10 years	80%	3%	£7.1m
Over 10 years	100%	58%	£129.3m
Total Borrowing			**£221.9m**

*The borrowing for under 12 months includes £17.5m of Lenders Option Borrowers Option (LOBO) loans. Although the loans are due to mature in 30-40 years time, they are classed as loans repayable within the financial year due to LOBO's having a call date every 6 months.

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.

	2013/14 Indicator	**2013/14 Actual @30.09.13**	**2013/14 Forecast Outturn**
Principal sums invested >364 days	£5.0m	£0.0m	£0.0m

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.

The indicator was set at £5m to allow for the accounting treatment of the Local Authority Mortgage Scheme (LAMS). At present the Council has £2m deposited in the LAMS scheme with Lloyds TSB and this is treated as capital expenditure, as a loan to a third party, (see section 3.5 of the Treasury Management Strategy). The Council's external auditors highlighted in their recent Statement of Accounts report that there is a debate about the accounting treatment for LAMS. Whilst the Council is confident of its accounting treatment as a capital loan, if the accounting treatment changed for this deposit for to be classed as an investment then this indicator would cover this investment.

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