Prudential Indicators for 2009/10

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. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Management Strategy. The outturn for the Prudential Indicators for 2009-10 and where applicable the impact on 2010/11 are set out in this appendix.

The 2009 Statement of Recommended Practice (SoRP) introduced a new accounting policy with regards to how Private Finance Initiative (PFI) arrangements are accounted for. The new accounting policy results in PFI related assets being brought on to the Council's Balance Sheet, in the Council's case three secondary schools, which in turn impacts the Council's capital financing.

Performance against the following Prudential indicators are shown as originally estimated in the 2009/10 Medium Term Financial Strategy (MTFS) and are revised for the impact of the PFI adjustment.

1.   **Indicator One: 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, and the revised code in February 2010. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.**

2.   **Indicator Two: Estimates and actual Capital Expenditure 2009/10**

	2009/10 Prudential Indicator £m	2009/10 Actual Expenditure £m
Capital Expenditure	78.9	61.8

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

3.   **Indicator Three: Estimates of actual capital financing requirements and net borrowing**

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.

	2009/10 £m	PFI £m	Revised 2009/10 £m
Prudential Indicator	185.4	50.0	235.4
Actual	168.0	50.0	218.0

4. **Indicator Four: Affordability (1) Estimate of actual 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 £264m, including DSG. Actual financing costs were £15m

	2009/10	PFI	Revised 2009/10
	%	%	%
Prudential Indicator	4.70	0.75	5.45
Actual	4.36	0.75	5.11

5. **Indicator Five: Affordability (2) Estimate of the incremental impact of capital investment decisions on the 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 Tax base for the year:

	2009/10	PFI	Revised 2009/10
	£	£	£
Prudential Indicator	20.93	-	20.93
Actual	18.06	-	18.06

The overall impact of the PFI arrangement for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure.

6. **Indicators Six: External Debt Prudential Indicators**

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, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

> 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.

	2009/10	2009/10	Revised 2009/10
	Prudential Indicator	Actual-exc. PFI	Actual inc. PFI
	£m	£m	£m
Authorised Limit for external debt -			
borrowing	250.0	134.5	134.5
other long term liabilities	4.0	1.0	51.0
Total	**254.0**	**135.50**	**185.50**
Operational Boundary for external debt -			
borrowing	195.0	134.5	134.5
other long term liabilities	3.0	1.0	51.0
Total	**198.0**	**135.5**	**185.5**

7. Indicator Seven: 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.

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

	2009/10	2009/10
	Prudential Indicator	Actual
	£m	£m
Upper limit for variable rate exposure	46.0	0

8. Indicator Eight: Fixed Interest rate exposures

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 (100%), 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. 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	2009/10	2009/10
	Prudential Indicator	Actual
	£m	£m
Borrowing	250.0	134.5
Investment	-	(13.4)
Total	**250.0**	**121.10**

9. Indicator Nine: 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%	1%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	0%
over 10 years	100%	10%	86%

10.   **Indicator Ten: Total Investments 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 particularly as the Council must maintain sufficient working capital for its operational needs

Principal sums invested for over 364 days (per maturity date)	2009/10 Prudential Indicator £m	2009/10 Actual £m
Upper limit	25.0	-