Prudential Indicators, 2013/14 – 2016/17

11.1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when setting and reviewing their Prudential Indicators.

11.2 Gross Debt and the Capital Financing Requirement:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Estimated capital financing requirement for:				
- General Fund	475.5	470.3	462.4	454.4
- HRA	140.6	145.8	161.2	161.2
- Total	616.1	616.1	623.6	615.6
HRA Limit on Indebtedness:				
- HRA	199.3	199.3	199.3	199.3

11.3 Estimates of Capital Expenditure:

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Planned capital spending:				
- General Fund	145.8	121.4	51.4	43.0
- HRA	21.7	17.5	25.8	10.4
- Total	160.8	138.9	77.2	53.4

11.4 Affordability indicators:

The ratio of financing costs to net revenue stream is an indicator of affordability and is based on costs net of investment income:

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	8.83	8.81	9.75	11.14	11.54
HRA	20.34	20.66	16.09	15.05	15.29

Total	10.56	10.57	10.76	11.84	12.24

11.5 Incremental Impact of Capital Investment Decisions:

The incremental impact of capital investment decisions is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2013/14 Approved £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Increase in Band D Council Tax	8.27	17.84	25.40	32.03
Increase in Average Weekly Housing Rents	0.00	0.12	1.18	1.88

11.6. Authorised Limit and Operational Boundary for External Debt:

11.6.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

11.6.2 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements. The Operational Boundary and Authorised Limit are prepared on the same basis but the Authorised Limit includes additional headroom to allow for strategic decisions which may increase borrowing for short periods.

	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Authorised Limit	790	790	790	790	790
Operational Boundary	690	690	690	690	690

11.7. Adoption of the CIPFA Treasury Management Code:

This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the readoption of the CIPFA Treasury Management Code at its meeting on 25 February 2013.

11.8 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

11.8.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

11.8.2 The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	Existing level at 25/02/13 %	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	**100**	100	100
Upper Limit for Variable Interest Rate Exposure	40	40	40	40	40	40

11.8.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Authority's treasury management strategy.

11.9 Maturity Structure of Fixed Rate borrowing:

11.9.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and 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.

11.9.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

11.9.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing	Level at 31/12/13 %	Lower Limit %	Upper Limit %
under 12 months	10	0	40
12 months and within 2 years	3	0	20
2 years and within 5 years	15	0	20
5 years and within 10 years	7	0	60
10 years and within 20 years	2	0	100
20 years and within 30 years	4	0	100
30 years and within 40 years	17	0	100
40 years and within 50 years	41	0	100

11.10. Credit Risk:

11.10.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

11.10.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk.

11.10.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.10.4 The only indicators with prescriptive values remain to be long term credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

11.11. Upper Limit for total principal sums invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
	20	20	20	20	20