

## APPENDIX 3

### COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2012/13

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

#### **1. Capital Financing Requirement**

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts in the Balance Sheet relating to capital expenditure and its' financing.

Capital Financing Requirement	2011/12 Actual £M	2012/13 Revised Estimate £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
General Fund	271	268	269	265	260	252
HRA	174	169	164	171	174	174
<b>Total CFR</b>	<b>445</b>	<b>437</b>	<b>433</b>	<b>436</b>	<b>434</b>	<b>426</b>

The actual position as at 31 March 2013 and the estimated position for the next two years based on the capital programme approved at council on the 13 February 2013 is due to the following:

Capital Financing Requirement	2011/12 Actual £M	2012/13 Revised Estimate £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
<b>Balance B/F</b>	<b>360</b>	<b>445</b>	<b>445</b>	<b>433</b>	<b>436</b>	<b>434</b>
Capital expenditure financed from borrowing	21	13	11	25	15	5
Temporary Funding (Repayment)	0	(6)	(3)	(6)	(3)	0
HRA Debt	74	5				
HRA Debt Voluntary Repayments			(10)	(7)	(5)	(5)
Revenue provision for debt Redemption.	(7)	(18)	(8)	(6)	(7)	(6)
Movement in Other Long Term Liabilities	(2)	(2)	(2)	(3)	(2)	(2)
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>445</b>	<b>437</b>	<b>433</b>	<b>436</b>	<b>434</b>	<b>426</b>

#### **2. Gross Debt and the Capital Financing Requirement**

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

In the Prudential Code Amendment (November 2012), it states that the Chief Financial Officer (CFO) should make arrangements for monitoring with respect to gross debt and the CFR such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

The table below shows our current and projected position; please note the small amount of borrowing in excess of the CFR in latter years represents short term (temporary) borrowing for cash flow purposes and the expectation that we will need to externalise debt (which is currently supported by internal funds) as balances are expected to fall. Along side temporary borrowing the council runs an investment programme as detailed in the main report, (Paragraphs 22 to 31), which brings our net borrowing down below the CFR. The Authority had no difficulty in meeting this requirement in 2012/13 and does not envisage any difficulties in future years. This view takes into account current commitments and existing plans set out in the approved budget.

Capital Financing Requirement	2012/13 Approved Estimate £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
CFR	441	433	437	438	430
Gross Long Term Debt	410	350	389	396	387
<b>Difference</b>	<b>31</b>	<b>83</b>	<b>48</b>	<b>42</b>	<b>43</b>
Short Term Debt	25	34	50	50	50
<b>Difference</b>	<b>6</b>	<b>49</b>	<b>(2)</b>	<b>(8)</b>	<b>(7)</b>
Borrowing in excess of CFR? (Y/N)	N	N	Y	Y	Y
Investments	(53)	(69)	(53)	(53)	(53)

### 3. Balances and Reserves

The Council's level of Balances and Reserves for 2012/13 and estimates to 2015/16 are currently as follows, although the forecasts for future years will be updated in the light of the actual position for 2012/13 and the development of both future revenue and capital spending plans during 2013/14:

	2011/12 Actual £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Balances and Reserves	70	76	41	29	27

### 4. Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which is also known as the Authorised Limit should not be breached. The Council's Authorised Limit was set at £809M for 2012/13 and £817M for 2013/14.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2012/13 was set at £772M and £779M for 2013/14.

The CFO confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year and borrowing at its peak was £310M.

## **5. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate**

### **Exposure**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2012/13 %</b>
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50
Compliance with Limits:	Yes

## **6. Total Principal Sums Invested for Periods Longer Than 364 days**

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and the limit is set at £50M. In 2012/13 the actual principal sum invested for periods longer than 364 days peaked at £13M, (compared to £27M in 2011/12). This was lower than the previous year due to the suspension of the rolling yearly programme of investments which was reintroduced in November 2012.

## **7. Maturity Structure of Fixed Rate Borrowing**

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.

The table below is not directly comparable to the information shown in paragraph 28 of the main report which represents the position reported in the Statement of Accounts and in order to satisfy accounting conventions splits out EIP loans in the early period based on repayments and not the maturity date.

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/3/2013	Average Fixed Rate as at 31/3/2013	% of Fixed Rate as at 31/3/2013	Compliance With Set Limits?
	%	%	£M	%		
Under 12 months	0	45	35	0.96	13.06	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	92	3.23	34.62	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	5	4.65	1.88	Yes
30 years and within 35 years	0	75	10	4.65	3.76	Yes
35 years and within 40 years	0	75	42	3.99	15.81	Yes
40 years and within 45 years	0	75	51	3.62	19.19	Yes
45 years and within 50 years	0	75	31	3.56	11.67	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			<b>266</b>	<b>3.33</b>	<b>100.00</b>	

Please note: the TM Code Guidance Notes (Page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

## 8. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2012/13 Approved £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
General Fund	69,658	54,190	52,894	23,666	4,282
HRA	31,196	24,270	37,202	35,622	34,609
<b>Total</b>	<b>100,854</b>	<b>78,460</b>	<b>90,096</b>	<b>59,288</b>	<b>38,891</b>

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2012/13 Approved £000's	2012/13 Actual £000's	2013/14 Approved £000's	2014/15 Approved £000's	2015/16 Approved £000's
Capital receipts	18,107	11,393	15,402	11,079	1,049
Government Grants	36,978	32,488	30,946	10,762	2,100
Contributions	5,103	3,722	2,624	2,586	2,832
Major Repairs Allowance	17,172	16,206	16,117	16,843	16,841
Revenue	11,025	9,111	11,354	9,677	11,169
<b>Total Financing</b>	<b>88,385</b>	<b>72,920</b>	<b>76,443</b>	<b>50,947</b>	<b>33,991</b>
Unsupported borrowing	12,469	5,540	13,653	8,341	4,900
<b>Total Funding</b>	<b>100,854</b>	<b>78,460</b>	<b>90,096</b>	<b>59,288</b>	<b>38,891</b>
Temporary Financing (Repayment)	(6,100)	(2,560)	(5,860)	0	0
<b>Total Financing &amp; Funding</b>	<b>94,754</b>	<b>75,900</b>	<b>84,236</b>	<b>59,288</b>	<b>38,891</b>

## 9. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income.

This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012. During 2012/13 the HRA made a voluntary debt repayment of £10.4M, which has led to an increase in the financing ratio for the year. This will result in lower borrowing costs for future years.

The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the approved capital programme adjusted for actual borrowing made in year.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Actual %	2012/13 Approved %	2012/13 Actual %	2013/14 Approved %	2014/15 Approved %	2015/16 Approved %
General Fund	6.30	6.84	6.14	6.78	6.97	7.24
HRA	4.65	10.92	24.95	17.51	16.18	15.57
<b>Total</b>	<b>7.12</b>	<b>8.84</b>	<b>12.06</b>	<b>10.43</b>	<b>10.20</b>	<b>10.54</b>

## 10. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the authority adopted the principles of best practice.

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 19 February 2003

## 11. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing.

HRA Summary of Borrowing	2012/13 Approved £M	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Brought Forward	174.2	174.2	163.8	170.7	173.8
Maturing Debt	(8.6)	(10.4)	(5.6)	(5.1)	(5.1)
New borrowing	4.8	0.0	12.5	8.2	4.9
<b>Carried Forward</b>	<b>170.4</b>	<b>163.8</b>	<b>170.7</b>	<b>173.8</b>	<b>173.6</b>
HRA Debt Cap (as prescribed by DLG)	201.3	199.6	199.6	199.6	199.6
<b>Headroom</b>	<b>30.9</b>	<b>35.8</b>	<b>28.9</b>	<b>25.8</b>	<b>26.0</b>

## 12. Summary

As indicated in this report none of the Prudential Indicators have been breached.