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DRAFT Prudential Indicators 2014/15, 2015/16 and 2016/17

1. Gross Debt and the Capital Financing Requirement

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

The Chief Finance Officer reports that the Council had no difficulty meeting this requirement in 2013/14. It is expected that the level of external borrowing will exceed the CFR in 2014/15. The reasons for this are set out in paragraphs 6.12 to 6.15 of the Treasury Management Strategy. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Debt	**31.03.14 Revised £m**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**
Borrowing				
Finance leases				
PFI liabilities				
Total Debt				

2. Estimates of Capital Expenditure

a) The Council is required to make reasonable estimates of the total of capital expenditure that it plans to incur during 2014/15 and the following two financial years. The Council must also approve the actual expenditure for 2012/13 and revised expenditure for 2013/14.

	2012/13 Actual £m	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Capital Expenditure	51.497				

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	Actual	Estimates			
	2012/13 £m	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
SCE(R) Supported Borrowing	0.000				
Prudential Borrowing	0.757				
Grants and Contributions	44.468				
Capital Receipts	0.000				
Revenue	6.272				
Reserves	0.000				
	51.497				

b) The indicators have been based on the February 2014 capital programme which will be considered for approval by Council on 18 February 2014 with the Service & Resource Planning Report.

c) The capital expenditure figures for beyond 2014/15 will be able to be revised in twelve months' time.

3. The Ratio of Financing Costs to the Net Revenue Stream

a) 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 financing costs. The definition of financing costs is set out in the Prudential Code.

Year	Actual/ Estimate	Financing Cost	Net Revenue Stream	Ratio
2012/13	Actual			
2013/14	Estimate			
2014/15	Estimate			
2015/16	Estimate			
2016/17	Estimate			

b) Financing costs include interest payable on borrowing, interest and investment income and the amount required for the minimum revenue provision.

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4. The Capital Financing Requirement

a) Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2013 that are recommended for approval are:

Year	Actual/Estimate	£m
2012/13	Actual	438.761
2013/14	Estimate	
2014/15	Estimate	
2015/16	Estimate	
2016/17	Estimate	

b) The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice the County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

5. The Incremental Impact of Capital Investment Decisions

a) This 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.

b) The estimate of the incremental impact of capital investment decisions proposed in the Capital Programme, over and above capital investment decisions that have previously been taken by the Council are, for the Band D Council Tax:

Year	Actual/Estimate	£
2014/15	Estimate	
2015/16	Estimate	
2016/17	Estimate	

6. Authorised Limit and Operational Boundary for External Debt

a) 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.

b) The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

c) 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).

d) 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.

e) The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2013/14 probable outturn	**2014/15 estimate**	**2015/16 estimate**	**2016/17 estimate**
	£'000	**£'000**	**£'000**	**£'000**
Operational Boundary for external debt -				
Borrowing	435.000	431.000	430.000	
other long term liabilities	40,000	40,000	40,000	
TOTAL	**475,000**	**471,000**	**470,000**	
Authorised Limit for external debt -				
Borrowing	445,000	441,000	440,000	
other long term liabilities	40,000	40,000	40,000	
TOTAL	**485,000**	**481,000**	**480,000**	

7. Actual External Debt

a) This indicator enables the comparison of Actual External Debt at year end to the Operational Boundary and Authorised Limit.

Total External Debt as at 31.03.13	**£'000**
External Borrowing	412,383
Financing Liability	27,282
Total	**439,665**

8. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice

a) This indicator demonstrates that the Council has adopted the principles of best practice.

b) The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting of Full Council on 1 April 2003.

9. Gross and net debt

a) This indicator is intended to identify where an authority may be borrowing in advance of need.

Upper Limit of net debt:

	2013/14	**2014/15**	**2015/16**	**2016/17**
Net Debt / Gross Debt	70%	70%	70%	70%

10. Upper and lower limits to maturity structure of fixed rate borrowing

a) 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.

b) 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.

c) LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2014/15	**Lower Limit %**	**Upper Limit %**
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	50	95

11. Upper limits on fixed and variable rate interest exposures

a) 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.

Upper limit for fixed interest rate exposure:

	2013/14	**2014/15**	**2015/16**	**2016/17**
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%

b) 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.

Upper limit for variable rate exposure:

	2013/14	**2014/15**	**2015/16**	**2016/17**
Net principal re variable rate borrowing / investments	25%	25%	25%	25%

12. Upper limit to total of principal sums invested longer than 364 days

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

b) It is proposed that the limit is increased by £50m in 2014/15 to reflect the increase in the size of the cash portfolio over recent years and to enable greater flexibility in the investment strategy given the low interest rate environment. The average in-house cash balance increased from just over £200m in 2009/10 to just over £300m in 2012/13.

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	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Upper limit on principal sums invested longer than 364 days	100	150	150	150