APPENDIX B

PRUDENTIAL INDICATORS 2013/14 TO 2015/16

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 (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

Net Borrowing 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 local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The Assistant Director (Finance and Corporate Services) reports that the authority had no difficulty meeting this requirement in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Prudential Indicator 1 - 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. The approved expenditure for 2012/13 and 2013/14 and the estimates of capital expenditure to be incurred for 2014/15 and future years are:

	2012/13 Approved £'000	**2013/14 Approved £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Approved capital schemes	3,526	1,259	(44)	(84)
Reserve schemes	1,279	1,062	0	0
New Schemes for 2013/14 start	533	881	370	0
Total Expenditure	**5,338**	**3,202**	**326**	**(84)**

The figures in the later years are showing income streams. This is due to income already budgeted from previously approved schemes. This will change as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

Prudential Indicator 2 - 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. This shows how much of the revenue budget is committed to the servicing of finance.

Estimates of the ratio of financing costs to net revenue stream for the 2013/14 and future years, and the approved figures for 2012/13 are:

Portfolio	2012/13 Approved £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Financing Costs*	(397)	(220)	(165)	(177)
Net Revenue Stream	16,577	17,955	19,153	18,341
%*	**(2.4)**	**(1.2)**	**(0.9)**	**(1.0)**

*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figures are in brackets due to investment income outweighing financing costs significantly for SSDC. This shows the extent that the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

	2012/13 Approved £'000	2013/14 Approved £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Opening CFR	9,506	9,381	9,447	9,332
Capital Expenditure	3,526	3,598	447	0
Capital Receipts*	(3,117)	(2,140)	(326)	84
Grants/Contributions*	(409)	(1,458)	(121)	(84)
MRP	(125)	(96)	(115)	(99)
Additional Leases taken on during the year	0	163		
Closing CFR	**9,381**	**9,447**	**9,332**	**9,234**

*Figures in brackets denote financing through receipts or reserves.

As a result of agreeing a capital programme year by year, and the fact that we have an identified income stream from the Crewkerne Aqua Centre Loan Repayment and the repayment of capital from the Goldenstones 10 year plan, the current position is showing an abnormal contribution to capital receipts in year 2015/16 (as opposed to the usual funding from capital receipts).

Prudential Indicator 4 – Net external Borrowing compared to the medium term Capital Financing Requirement:

The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the net external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period.

	2012/13 Approved £'000	2013/14 Approved £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Net Borrowing*	(36,014)	(38,910)	(39,077)	(39,161)
CFR	9,381	9,447	9,332	9,234

*The figures in brackets show the estimated level of investments we currently have.

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. Overall the authority is aiming to keep within the following exposure to fixed rates as and when market conditions improve.

	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit	2015/16 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

The Council must also set limits to reflect any borrowing we may undertake.

	2012/13 % Limit	2013/14 % Limit	2014/15 % Limit	2015/16 % Limit
Fixed	100	100	100	100
Variable	100	100	100	100

The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - 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 Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2012/13 Approved £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Between 1-2 years	25,000	25,000	25,000	25,000
Between 2-3 years	20,000	20,000	20,000	20,000
Between 3-4 years	10,000	10,000	10,000	10,000
Between 4-5 years	10,000	10,000	10,000	10,000
Over 5 years	5,000	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in previous years to ensure the Council has sufficient flexibility to deal with any unexpected events. **The overall limit for maturities of greater than 364 days will not exceed 70% of the portfolio.**

Prudential Indicator 7 – Credit Risk:

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

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

The Council 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 and its sovereign
- 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

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

Prudential Indicator 8 - Actual External Debt:

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2013	**£'000**
Borrowing	0
Other Long-term Liabilities	386
Total	**386**

Prudential Indicator 9 - Authorised Limit for External Debt:

The Council 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 Council and not just those arising from capital spending reflected in the CFR.

This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council has acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A £9.1m borrowing requirement has been identified to finance the capital programme and further borrowing may be undertaken to increase our borrowing to this level if and when it is the most cost effective way of funding SSDC's requirements. A ceiling of £12 million for each of the next three years is recommended, to allow flexibility to support new capital projects over and above the identified borrowing requirement.

The move to local authorities implementing International Financial Reporting Standards (IFRS) has had implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's leases against IFRS implications have resulted in the related assets and liabilities being brought onto the Council's balance sheet.

	2012/13	**2013/14**	**2014/15**	**2015/16**

	Approved £’000	Approved £’000	Estimate £’000	Estimate £’000
Borrowing	11,000	11,000	11,000	11,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
Total	**12,000**	**12,000**	**12,000**	**12,000**

Prudential Indicator 10 – Operational Boundary for External Debt:

The Operational Boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million is recommended for each of the next three years. The table overleaf shows that SSDC’s current borrowing is well within this limit. This indicator more than covers the capital financing requirement.

The Assistant Director (Finance and Corporate Services) has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2012/13 Approved £’000	2013/14 Approved £’000	2014/15 Estimate £’000	2015/16 Estimate £’000
Borrowing	9,200	9,200	9,200	9,200
Other Long-term Liabilities	800	800	800	800
Total	**10,000**	**10,000**	**10,000**	**10,000**

Prudential Indicator 11 - 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, in particular in the course of the next ten years.

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.

Maturity structure of fixed rate borrowing	2011/12 % Actual	2012/13 % Actual	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100

40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

SSDC must show the effect of its annual capital decisions for new capital schemes on the council taxpayer. Capital spend at SSDC is financed from additional receipts so the figures below actually show the possible decreases in council tax if all capital receipts were invested rather than used for capital expenditure.

Incremental Impact of Capital Investment Decisions	**2012/13 Approved £**	**2013/14 Approved £**	**2014/15 Estimate £**	**2015/16 Estimate £**
Decrease in Band D Council Tax	0.34	0.47	0.67	0.67

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18th April 2002.