Appendix 1

Prudential Indicators

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. It should be noted that Cipfa undertook a review of the Code in early 2008 to assess whether there are any improvements which could be made. The outcome from that review has yet to be published.

1. Estimates of 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.

No. 1	**Capital Expenditure**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
		Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
	General Fund	34,704	65,767	63,247	48,429	14,549
	HRA	22,393	27,948	32,906	22,269	19,150
	Total	**57,097**	**93,715**	**96,153**	**70,698**	**33,699**

Capital expenditure will be financed as follows:

Capital Financing	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital receipts	7,989	17,484	7,039	12,541	10,406
Capital Grants	19,460	18,911	28,720	22,281	4,713
Contributions	1,896	3,866	5,421	1,206	280
Major Repairs Allowance	12,233	12,206	12,641	12,823	13,158
Revenue	2,820	16,549	17,881	7,733	4,336
Supported borrowing	7,102	9,170	10,066	8,336	6
Unsupported borrowing	5,597	15,529	14,385	5,778	800
Total	**57,097**	**93,715**	**96,153**	**70,698**	**33,699**

2. Ratio of Financing Costs to Net Revenue Stream:
This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet borrowing costs associated with capital spending (any required revenue provision for debt redemption and interest charges). The financing costs include existing and proposed capital commitments. The ratio is based on costs net of investment income.

No. 2	**Ratio of Financing Costs to Net Revenue Stream**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
		Actual %	Estimate %	Estimate %	Estimate %	Estimate %
	General Fund	2.99	2.27	4.71	5.97	6.00
	HRA	7.06	5.01	5.42	6.64	7.03
	Total	**4.32**	**3.76**	**5.03**	**5.84**	**6.12**

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3. 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 held in the Balance Sheet relating to capital expenditure and it's financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

No. 3	**Capital Financing Requirement**	**31/3/08**	**31/3/09**	**31/3/10**	**31/3/11**	**31/3/12**
		Actual	Estimate	Estimate	Estimate	Estimate
		£'M	£'M	£'M	£'M	£'M
	General Fund	114	132	146	150	144
	HRA	90	92	97	101	102
	Total CFR	**204**	**224**	**243**	**251**	**246**

The year–on-year change in the CFR is due to the following

Capital Financing Requirement	**31/3/08**	**31/3/09**	**31/3/10**	**31/3/11**	**31/3/12**
	Actual	Estimate	Estimate	Estimate	Estimate
	£'M	£'M	£'M	£'M	£'M
Balance B/F	201	204	224	243	251
Capital expenditure financed from borrowing.	13	25	24	14	1
Revenue provision for debt Redemption.	(5)	(4)	(4)	(5)	(5)
Other movements in deferred liabilities	(5)	(1)	(1)	(1)	(1)
Balance C/F	**204**	**224**	**243**	**251**	**246**

In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should make sure that net external borrowing does not, except in the short term, exceed the 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 Chief Financial Officer reports that SCC does not envisage any difficulties for the current or future financial years.

4. 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.

No. 4	**Actual External Debt as at 31/3/2008**	£M
	Borrowing	143
	Other Long-term Liabilities	21
	Total	**164**

5. Incremental Impact of Capital Investment Decisions:

This indicator is intended to estimate the impact of capital investment decisions on the Council Tax and rent levels in future years. It compares what the capital financing costs are expected to be with the current approved capital programmes (i.e. the programmes approved in September 2007) with what the capital financing costs are estimated to be if the capital reports proposed elsewhere on the agenda are approved. It is intended to show how the decision to approve the new programme will impact in future years i.e. what the effect of any new borrowing will be on Council Tax and housing rents. (Much of the increase over the 3 years is as a result of adding the 2010/11 schemes to the capital programme and additional unsupported borrowing).

For the HRA, the reality is that the rent levels are set under the Government's rent restructuring formula, which is independent of the level of capital investment and borrowing. The calculation of the indicator ignores this factor.

For the General Fund, the incremental impact will not necessarily be passed on to the Tax payers either as other decisions such as cutting back other expenditure may be made to compensate for this increase in future years budget setting.

The incremental impact of capital investments decisions are estimated to be:

No. 5	**Incremental Impact of Capital Investment Decisions**	**2009-10**	**2010-11**	**2011-12**
		Estimate	Estimate	Estimate
		£	£	£
	Increase/(decrease) in Band D Council Tax	3.39	0.92	9.17
	Increase/(decrease) in Average Weekly Housing Rents	2.13	6.46	2.09

6. Authorised Limit and Operational Boundary 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.

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing 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 Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

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).

No. 6	**Authorised Limit for External Debt**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
		Actual	Estimate	Estimate	Estimate	Estimate
		£M	£M	£M	£M	£M
	Borrowing	146	360	361	387	388
	Other Long-term Liabilities	22	23	22	21	20
	Total	**168**	**383**	**383**	**408**	**408**

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7. Operational Boundary

The Operational Boundary links directly to the Council's plans for capital expenditure, the estimates of the capital financing requirement and the estimate of 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.

The Chief Financial Officer 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 Council as part of the Outturn report.

No. 7	**Operational Boundary for External Debt**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
		Actual £'M	Estimate £'M	Estimate £'M	Estimate £'M	Estimate £'M
	Borrowing	146	350	351	375	376
	Other Long-term Liabilities	22	22	21	20	19
	Total	**168**	**372**	**372**	**395**	**395**

8. Adoption of the CIPFA Treasury Management Code:

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

No. 8	**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 19th February 2003.

9. 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. This Council calculates these limits on (select as appropriate) net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments // net interest paid (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments) .

The upper limit for variable rate exposure has been set to ensure that the Council 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

No.	Prudential Indicator	**2008-09**	**2009-10**	**2010-11**	**2011-12**
		Estimate %	Estimate %	Estimate %	Estimate %
9	**Upper Limit for Fixed Interest Rate Exposure**	100	100	100	100
10	**Upper Limit for Variable Rate Exposure**	35	35	35	35

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 Council's treasury management strategy.

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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.

No. 11	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
	under 12 months	0	30
	12 months and within 24 months	0	30
	24 months and within 5 years	0	50
	5 years and within 10 years	0	75
	10 years and above	0	100

12 Upper Limit for total principal sums invested over 364 days:
Investments over 1 year will only be taken after seeking advice from our Treasury Management consultants. 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.

No. 12	Upper Limit for total principal sums invested over 364 days	2008-09	2009-10	2010-11	2011-12
		Estimate	Estimate	Estimate	Estimate
		£M	£M	£M	£M
	Total	**50**	**50**	**50**	**50**