

APPENDIX B

APPENDIX B – PERFORMANCE AGAINST PRUDENTIAL INDICATORS

RATIO OF CAPITAL FINANCING COSTS TO NET REVENUE STREAM

1. 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, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31 March 2015 Approved %	31 March 2015 Actual %	31 March 2016 Estimate %	31 March 2017 Estimate %
Total	12.36	13.81	13.48	14.28

2. The ratio is higher than that approved in the treasury management strategy due to changes in capital finance accounting in respect of the highways PFI project, which were not taken into account at the time the 2014-15 strategy was set.

CAPITAL EXPENDITURE 2014-15

3. The capital expenditure prudential 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, which is set out in the table below.

Capital Expenditure	31 March 2015 Approved £m	31 March 2015 Actual £m
Total	14.7	11.9

4. Capital expenditure has been financed as follows:

Capital Financing	31 March 2015 Approved £m	31 March 2015 Actual £m
Capital receipts	1.0	0.6
Government Grants	6.8	5.7
Reserves	1.4	5.3
External contributions	1.9	0.0
Revenue contributions	0.3	0.3
Total Financing	11.4	11.9
Borrowing	3.3	0.0
Total Funding	3.3	0.0
Total Financing and Funding	14.7	11.9

CAPITAL FINANCING REQUIREMENT

5. The capital financing requirement (CFR) measures the authority's underlying need to borrow or finance by other long term liabilities for a capital purpose.
6. The CFR measures the total amount of capital expenditure already incurred that has not yet been funded directly from capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. This can be financed from external borrowing or by borrowing from internal balances.
7. The variation from year to year in the CFR represents the impact of new capital expenditure financed by borrowing offset by the provision made in the revenue budget and the use of capital receipts to repay debt.
8. Comparison of the council's cumulative maximum external borrowing requirement for 2014-15 is shown in the table below:

Capital Financing Requirement	31 March 2015 Approved £m	31 March 2015 Actual £m
Total CFR	199.4	246.8

9. The actual CFR for 2014-15 is £47.4 million higher than originally estimated as a result of the introduction of the new Highways PFI project accounting requirements, which were not taken into account when the strategy was set, offset by lower than anticipated capital expenditure.

Gross Debt and the Capital Financing Requirement

10. In order to ensure that over the medium term debt will only be for a capital purpose, the council should ensure that debt 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. This is a key indicator of prudence.

Debt	31 March 2015 Approved £m	31 March 2015 Actual £m
Borrowing	163.9	138.7
Finance leases	0.3	0.3
PFI liabilities	2.5	50.5
Total Debt	166.7	189.7
Borrowing in excess of CFR?		No

11. PFI liabilities in respect of the highways project were not taken into account correctly when the treasury management strategy was approved.
12. Total debt is expected to remain below the CFR during the forecast period.

EXTERNAL DEBT

13. At the start of each year the council is required to set Prudential Indicators for both the authorised limit for external debt, and the operational boundary for external debt.
14. The Operational Boundary for External Debt is based on the council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the council's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the council's debt.
15. The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.
16. The Head of Finance and Section 151 Officer confirms that there were no breaches to the total Authorised Limit and the total Operational Boundary during 2014-15; the highest level of borrowing during the year was £152.9m for the period from 1 April to 19 August 2014

	Operational Boundary (Approved) 31 March 2015	Authorised Limit (Approved) 31 March 2015	Actual External Debt 31 March 2015
Borrowing	164.0	180.0	138.7
Other Long-term Liabilities	3.0	3.0	50.8
Total	167.0	183.0	189.5

17. Other long term liabilities are higher than both the Authorised Limit and the Operational Boundary, due to the implementation of the accounting arrangements for the Highways PFI project.

Interest on external debt

18. The council is required to set a prudential indicator to fix the upper limits for fixed interest rate exposure and variable interest rate exposure. This indicator is set to control the council's exposure to interest rate risk.

19. The council's actual exposure to fixed and variable interest rates for 2014-15 compared to the approved limits for maximum exposure to each type of interest rate are set out in the following table:

	Approved Limits for 2014-15 Proportion %	Actual at 31 March 2015 Proportion %	Maximum during 2014 -15 Proportion %
Upper Limit for Fixed Rate Exposure	100	96.4	96.7
Compliance with Limits:		Yes	Yes
Upper Limit for Variable Rate Exposure	20	3.6	3.8
Compliance with Limits:		Yes	Yes

Maturity of external debt

20. The prudential indicator for the maturity structure of fixed rate borrowing is set to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates
21. The approved borrowing strategy for 2014-15 was to continue to borrow short term (duration one year) at fixed interest rates, then in 12 months to renew that borrowing medium to long term at fixed interest rates, having regard to the interest rates that are likely to be available.
22. The council's actual maturity structure for external debt at 31 March 2014, compared to the limits for the maturity structure of debt for 2013-14, are set out in the table below:

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing at 31 March 2015 £m	% Fixed Rate Borrowing at 31 March 2015	Compliance with Set Limits?
under 12 months	30	0	20.8	15.5	Yes
12 months and within 24 months	10	0	10.0	7.5	Yes
24 months and within 5 years	20	0	17.0	12.7	Yes
5 years and within 10 years	50	0	29.7	22.2	Yes
10 years and within 20 years	95	0	55.2	37.0	Yes
20 years and within 30 years	95	0	0.0	0.0	Yes
30 years and within 40 years	95	0	1.0	0.7	Yes
40 years and within 50 years	95	0	0.0	0.0	Yes
50 years and above	95	0	0.0	0.0	Yes

23. The upper limit of 30% on debt maturing within 12 months has been set specifically for 2014-15, when it is expected that current short-term borrowing will be replaced by further short-term borrowing. On maturity of the second round of such borrowing, the debt is currently forecast to be replaced by medium- to long-term borrowing, and the upper limit of debt maturing within 12 months will revert to 10%.
24. The upper and lower limits for the profiling of the maturity of debt are broad bandings for the maturity structure of the council's debt plan, and are not intended to be cumulative. The actual maturity profile will be managed within these limits to ensure that the repayment requirements are balanced within the council's cash flow requirements.

ADOPTION OF THE CIPFA TREASURY MANAGEMENT CODE

25. This indicator demonstrates that the council adopted the principles of best practice.
26. The council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition in February 2012, having adopted the original code of practice recommendations in February 2003.

UPPER LIMIT FOR TOTAL PRINCIPAL SUMS INVESTED OVER 364 DAYS

27. 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.

	31 March 2015 Approved £m	31 March 2015 Actual £m
Amounts invested for over 364 days	15.0	-