

APPENDIX B

PERFORMANCE AGAINST PRUDENTIAL INDICATORS

RATIO OF CAPITAL 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 financing costs, net of investment income.

| Ratio of Financing Costs to Net Revenue Stream | 31 March 2016 Approved % | 31 March 2016 Actual % | 31 March 2017 Estimate % | 31 March 2018 Estimate % |
|---|--------------------------------|---|-----------------------------------|--------------------------------|
| Total | 14.1 | 11.4 | 15.6 | 17.3 |

- The ratio is lower than that approved in the treasury management strategy due to lower than anticipated borrowing being required, and that which was taken was at a lower than originally forecast.

CAPITAL EXPENDITURE 2015-16

- 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 2016 Approved £m | 31 March 2016 Actual £m |
|----------------------------|------------------------------------|--|
| Total | 39.0 | 21.9 |

- Capital expenditure has been financed as follows:

| Capital Financing | 31 March 2016 Approved £m | 31 March 2016 Actual £m |
|------------------------------------|------------------------------------|--|
| Capital receipts | 2.5 | 0.7 |
| Government Grants | 13.5 | 5.4 |
| Reserves | 0.0 | 0.0 |
| External contributions | 0.0 | 0.0 |
| Revenue contributions | 0.0 | 0.0 |
| Total Financing | 16.0 | 6.1 |
| Borrowing | 23.0 | 15.8 |
| Total Funding | 23.0 | 15.8 |
| Total Financing and Funding | 39.0 | 21.9 |

CAPITAL FINANCING REQUIREMENT

- 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 2015-16 is shown in the table below:

| Capital Financing Requirement | 31 March 2016 Approved £m | 31 March 2016 Actual £m |
|--------------------------------------|------------------------------------|--|
| Total CFR | 280.0 | 275.3 |

Gross Debt and the Capital Financing Requirement

9. 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 2016 Approved £m | 31 March 2016 Actual £m |
|------------------------------------|------------------------------------|--|
| Borrowing | 173.6 | 154.4 |
| Finance leases | 0.4 | 0.6 |
| PFI liabilities | 67.8 | 68.4 |
| Total Debt | 241.8 | 227.4 |
| Borrowing in excess of CFR? | | No |

10. Total debt is expected to remain below the CFR during the forecast period.

EXTERNAL DEBT

11. 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.
12. 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.
13. 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.

14. The Director of Finance confirms that there were no breaches to the total Authorised Limit and the total Operational Boundary during 2015-16; the highest level of borrowing during the year was £158.4m for the period from 30 March 2016 to year end.

| | Operational Boundary (Approved) 31 March 2016 | Authorised Limit (Approved) 31 March 2016 | Actual External Debt 31 March 2016 |
|-----------------------------|---|---|------------------------------------|
| Borrowing | 185.0 | 212.0 | 158.4 |
| Other Long-term Liabilities | 68.0 | 68.0 | 69.0 |
| Total | 253.0 | 280.0 | 227.4 |

Interest on external debt

15. 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.
16. The council's actual exposure to fixed and variable interest rates for 2015-16 compared to the approved limits for maximum exposure to each type of interest rate are set out in the following table:

| | Approved Limits for 2015-16 Proportion % | Actual at 31 March 2016 Proportion % | Maximum during 2015 -16 Proportion % |
|---|--|--------------------------------------|--------------------------------------|
| Upper Limit for Fixed Rate Exposure | 100 | 96.8 | 96.8 |
| Compliance with Limits: | | Yes | Yes |
| Upper Limit for Variable Rate Exposure | 20 | 3.2 | 4.0 |
| Compliance with Limits: | | Yes | Yes |

Maturity of external debt

17. 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
18. The approved borrowing strategy for 2015-16 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.
19. The council's actual maturity structure for external debt at 31 March 2016, compared to the limits for the maturity structure of debt for 2015-16, are set out in the table below:

| Maturity Structure of Fixed Rate Borrowing | Upper Limit % | Lower Limit % | Actual Fixed Rate Borrowing at 31 March 2016 £m | % Fixed Rate Borrowing at 31 March 2016 | Compliance with Set Limits? |
|--|---------------|---------------|---|---|-----------------------------|
| under 12 months | 35 | 0 | 50.5 | 32.9 | Yes |
| 12 months and within 24 months | 10 | 0 | 0.0 | 0.0 | Yes |
| 24 months and within 5 years | 20 | 0 | 8.0 | 5.2 | Yes |

| | | | | | |
|------------------------------|----|---|-------------|------|-----|
| 5 years and within 10 years | 50 | 0 | 15.0 | 9.8 | Yes |
| 10 years and within 20 years | 95 | 0 | 78.9 | 51.4 | 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 |

20. The upper limit of 35% on debt maturing within 12 months was set specifically for 2015-16, 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%.
21. 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

22. This indicator demonstrates that the council adopted the principles of best practice.
23. 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

24. 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 2016 Approved £m | 31 March 2016 Actual £m |
|---|---------------------------------|-------------------------------|
| Amounts invested for over 364 days | 30.0 | - |