

## Details of the Treasury and Prudential Indicators

This appendix explains each of the prudential indicators, as defined in the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in Public Service Code of Practice.

### Affordability

#### ***Aff.1: Financing costs as a percentage of net revenue stream***

This compares the total principal and interest payments on external debt less interest and investment income to the overall total revenue spending of the authority. The indicator must be calculated separately for the General Fund and Housing Revenue Account (HRA).

#### ***Aff.2: The incremental impact of capital investment on the Council Tax and Housing Rents***

This indicator requires the General Fund net revenue streams to be converted into an estimated Band D Council Tax for each of the next three years. This will mean making assumptions on the levels of Government grant and Non Domestic Rates expected as well as the Council Tax base and spending plans. Only the element of any increase/decrease in Council Tax that relates to the Council's capital investment plans is reported in the indicator. A similar indicator must be calculated for average weekly rents in the HRA.

#### ***Aff.3: Capital expenditure***

This indicator reports the Council's capital expenditure for the current year.

#### ***Aff.4: External debt***

This indicator reports on the external debt limits (made up of borrowing and other long term liabilities). The two limits set are:-

The *authorised limit*. This is the maximum amount the authority allows itself to borrow.

The *operational boundary*. This reflects the most likely (prudent) but not worst case scenario of the debt position of the authority. This is also an "upper" limit, so does not reflect the expected external debt level for the Council on a day to day basis, but should link directly to capital spending plans, the capital financing requirement and daily cash-flows.

There may be occasions when the operational boundary for borrowing is temporarily breached - for example, if a capital receipt is not received on the due date. Such breaches must be monitored to identify trends, but do not need to be reported. On very rare occasions, the authorised limit may be breached and this must be reported to members.

### ***Aff.5: The Capital Financing Requirement (CFR)***

This indicator reports the actual capital financing requirement (CFR) for the General Fund and HRA. The CFR comprises the sum of the value of fixed assets (land, buildings etc), deferred charges (spending on assets not owned by the Council, such as capital grants to housing associations) and other capital accounts on the balance sheet (revaluation reserve and capital adjustment account). By adding these values together, the total represents a good approximation of how much capital investment has been funded from borrowing.

### **Prudence**

The aim of this category of indicator is to ensure that medium and long term borrowing is only for capital purposes and that authorities are not taking out long term borrowing to fund revenue spending.

#### ***Pru.1: Gross external borrowing and the capital financing requirement***

This indicator is used to compare the gross external borrowing against the total capital financing requirement (see Aff.5 above) for current year plus any additions to the total capital financing requirement for the coming year and two following years. The gross external borrowing figure should always be the lower figure.

#### ***Pru.2: Adoption of the CIPFA Treasury Management Code of Practice***

The Code requires an explicit statement from the Authority that it has adopted the above Code published by the Chartered Institute of Public Finance and Accountancy, in full.

#### ***Pru.3: Upper limits to fixed and variable rate exposures***

This indicator sets upper limits on the amount of net borrowing (total borrowing less investments) with fixed interest rates and variable interest rates for a three year period. By applying these thresholds, the exposure to fluctuations in interest rates can be controlled.

#### ***Pru.4: Maturity structure of borrowing***

This indicator sets upper and lower limits on the amount of borrowing due to be repaid in a given period on fixed rate borrowing. The purpose of this indicator is to ensure that the Council has a balanced portfolio of debt, avoiding any major peaks and troughs over the life of the total debt.

#### ***Pru.5: Total principal sums invested for periods of more than 364 days***

This sets a limit on the amount of money than can be invested for more than one year.