PRUDENTIAL CODE & INDICATORS STATEMENT

The Prudential Code for Capital Finance in Local Authorities was developed by CIPFA to support local authorities with the management of their capital finance and investment programmes. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The indicators will be monitored during the year and the final position at the year end compared to the forecast.

Prudential Indicators of Affordability

1.Capital Expenditure

The first prudential indicator for affordability gives details of the total capital expenditure plans. This is to help ensure that these are reasonable given the resources of the council.

	2010/11 Actual £'000	2011/12 Forecast £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Capital Expenditure	1,165	1,191	998	838	2,362	662

For SBDC the capital programme will continue to be fully funded from capital receipts and Government grant, and the above capital expenditure plans will not reduce the level of those receipts to below that assumed in forecasting future investment income.

2.Ratio of financing costs to net revenue income stream

The second indicator shows how much of a councils revenue budget has to be allocated towards interest payments, or for a debt free authority such as SBDC how much investment income contributes to the budget.

	2010/11 Actual £'000	2011/12 Forecast £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Financing Costs (1)	1,050	900	800	800	850	850
Net Revenue Stream	7,654	7,163	7,002	6,807	6,577	6,677
Ratio	(13.7%)	(12.6%)	(11.4%)	(11.6%)	(12.9%)	(12.7%)

(1) ie net investment income

As SBDC is debt free – income from investments far outweighs any short term borrowing costs, therefore the ratio of financing costs to revenue income stream (Government grant and Council tax payers) will be negative.

3. Incremental Impact on Council Tax

The next indicator assesses the impact of the capital programme on the revenue budget.

For SBDC the size of the capital programme has an effect on the Council's revenue budget (and hence Council Tax) in two ways.

Firstly each pound spent on the capital programme reduces the amount of capital reserves, which in turn reduces the Council's investment holdings and thus the revenue interest earned by the Council. Based on current investment rates, increasing the overall capital programme by £100,000 will reduce annual interest by and thus increase the revenue budget by £1,000. Similarly reducing the overall capital programme by £100,000 will increase annual interest by and thus reduce the revenue budget by £1,000. £1,000 is equivalent to approximately 3.5p on the average band D Council Tax.

Secondly additional capital expenditure can result in additional revenue maintenance costs, for instance a new piece of ICT equipment is likely to required additional annual maintenance and support.

4. Capital Financing Requirement

This indicator provides details of an authority's underlying need to borrow. For debt free authorities this should be nil.

	2010/11 Actual £'000	2011/12 Forecast £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
SBDC Capital Financing Requirement	0	0	0	0	0

Furthermore the SBDC capital financing requirement will always remain nil whilst capital expenditure if fully funded from capital receipts and Government Grant.

5. Authorised Temporary Borrowing Limits

This indicator sets limits on how much SBDC can borrow.

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Authorised Limit	3,500	3,500	3,500	3,500	3,500
Operational Limit	3,000	3,000	3,000	3,000	3,000

The Authorised Limit for South Bucks represents the maximum temporary borrowing limit. The Operational Limit focuses on the day to day treasury management activities of the authority and is set at a lower figure than the Authorised Limit because cash – flow variations may lead to the occasional (but not sustained) breeches of the operational limit.

Prudential Indicators for Prudence

1. Net Borrowing and The Capital Financing Requirement

The first prudential indicator for prudence is to ensure that in the medium term borrowing will only be used to fund capital expenditure. As SBDC does not borrow (except for short term cash flow requirements) then this indicator is met.

2. Treasury Management Indicator

The second indicator is whether or not the authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. SBDC has done this and thus meets this indicator.

3. Upper limit for interest rate exposure.

The interest rates exposure indicators are designed to limit exposure to the effects of changes in interest rates. As a debt free authority these are set reasonably high to allow investment flexibility.

	2011/12	2012/13	2013/14	2014/15
Fixed Rate	100%	100%	100%	100%
Variable Rate	35%	35%	35%	35%

A minimum of £13 million is committed to be invested in fixed rate deposits in 2012/13, representing 65% of the total investments available. It has been assumed that the remaining balance of the Council's investments, 35%, is available to invest in variable rate investments.

4. Maturity Structure of Borrowings

This indicator is designed to reduce the risk of large sums of borrowings having to be repaid at the same time. However as a debt free authority SBDC will only ever have short term debt to cover cash flow shortfalls. As such for SBDC all borrowings shall be repayable within 12 months.

5. Upper limit for total principal sums invested for over 364 days.

Where a local authority invests, or plans to invest, for periods longer than 364 days, the local authority must set an upper limit for each forward financial year period for the maturing of such investments. This prudential indicator is referred to as prudential limits for principal sums invested for periods longer than 364 days. This indicator is designed to ensure that authorities always have sufficient funds to cover their cash flow needs and thus do not need to realise investments before they reach maturity.

As SBDC has cash reserves of over £20m it is able to invest longer term and thus has a high limit.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Upper Limit	20	20	20	20

The above upper limit figure has been calculated taking into account the maximum that could be available for investing in excess of 1 year allowing for the needs of short term cash flow and the use of capital receipts to fund capital expenditure. At present the Council has £13 million of investments which may mature in excess of 364 days.