

APPENDIX A

1. PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS AND COMPLIANCE ISSUES

- 1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the Prudential Indicators consider the affordability and impact of capital expenditure decisions, the treasury management service covers the effective funding of these decisions.
- 1.2 The 2003 Prudential Code for Capital Finance in Local Authorities required that actual prudential indicators be reported after the year-end. The table below summarises the key prudential indicator performance for 2014/15.
- 1.3 The Council at its meeting on 18th February 2014 adopted the prudential indicators for 2014/15.

PRUDENTIAL INDICATORS

2013/14	PRUDENTIAL INDICATOR	2014/15
Actual		Actual
CAPITAL EXPENDITURE / AFFORDABILITY		
£000's	Capital Expenditure	£000's
3,264	General Fund	3,764
3,264	Total	3,764
£000's	Capital Financing Requirement	£000's
3,085	General Fund	2,791
3,085	Total	2,791
%	Ratio of Financing Costs to Net Revenue Stream	%
4.40	General Fund	5.04
4.40	Total	5.04
£p	Increase in Council Tax (Band D) per annum	£p
2.88	Mole Valley DC (2014/15 = 1.9% increase)	2.94
TREASURY MANAGEMENT		
£000's	External Debt	£000's
0	General Fund	0

Capital Financing Requirement (CFR)

- 1.4 The CFR is derived from the Authority's balance sheet and measures its underlying need to borrow for a capital purpose. This Authority fully finances its capital expenditure (including the value of assets acquired under finance leases) without borrowing. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Authority that has yet to be finalised.
- 1.5 In accordance with best practice this Authority does not associate borrowing with particular items or types of expenditure, in day-to-day cash management no distinction can be made between capital cash and revenue cash. Any external borrowing would arise as a consequence on all financial transactions whereas this measure reflects the Authority's underlying need to borrow for a capital purpose only.

Net Borrowing and the CFR

- 1.6 In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2014/15 plus the expected changes to the CFR over 2015/16 and 2016/17. The Council has complied with this prudential indicator.

TREASURY MANAGEMENT INDICATORS

The Authorised Limit

- 1.7 The Authorised Limit is the 'Affordable Borrowing Limit' required by S3 of the Local Government Act 2003 irrespective of the Authority's indebted status. The limit is the maximum amount of external debt that can be outstanding at any one time during the financial year. The Authorised Limit also provides some headroom for unexpected cash movements. The introduction of International Financial Reporting Standards (IFRS) required finance leases to be included under other long-term liabilities on the balance sheet. A limit of £5.5m was used for the Authorised Limit. The actual outturn was £3.0m (£3.2m in 2013/14) for finance lease liabilities. There was no borrowing during 2014/15.

The Operational Boundary

- 1.8 The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Operational Boundary is acceptable subject to the Authorised Limit not being exceeded. The Operational Boundary does not allow for additional headroom as is the case with the Authorised Limit. A limit of £4m was used for the Operational Boundary. The actual outturn was £3.0m (£3.2m in 2013/14) for finance lease liabilities. There was no borrowing during 2014/15.

Actual financing costs as a proportion of net revenue stream

- 1.9 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Since the Council is a debt free Authority this indicator is not relevant.
- 1.10 A 'debt free' Authority does not incur financing costs because it does not have any long-term debt. Instead, this indicator measures the investment income earned by the Council as a percentage of the Council Tax budget requirement, so as to show the level by which investment income is being used to underpin the Council's operational budget. See table at paragraph 1.3.

Investment Activity

- 1.11 The purpose of the following indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

1.12 Interest rate exposure

Interest rate exposures	2013/14 Actual	2014/15 Estimate	2014/15 Actual
	Upper	Upper	Upper
Limits on fixed interest rates: (investments only)	73.04%	100%	73.21%
Limits on variable interest rates: (investments only)	26.96%	35%	26.79%

1.13 Maturity structure of fixed interest rate borrowing 2014/15

Maturity structure of fixed interest rate borrowing 2014/15		
	Lower	Upper
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	0%	0%

- 1.14 The Council has been debt free since 1st April 1997. These indicators have therefore not moved from 0% in the estimate or the actual outturn.

1.15 Maximum principal sums invested > 364 days

Maximum principal sums invested > 364 days			
	2013/14 Actual	2014/15 Estimate	2014/15 Actual
Principal sums invested > 364 days	£7.1m	£12m	£5.7m

Adoption of the CIPFA Treasury Management Code

- 1.16 This indicator demonstrates that the Council has adopted the principles of best practice.
- 1.17 The Council approved the adoption of the CIPFA Treasury Management Code at its full Council meeting on 20th January 2004.
- 1.18 The Council has incorporated the changes from the revised CIPFA Treasury Management Code of Practice into its treasury policies, procedures and practices. Council approved the revised Treasury Management Policy on 18th February 2014.