

Appendix E

Prudential indicators under the Prudential Code for capital finance

1. The purpose of the indicators is to provide a framework for capital expenditure decision making, highlighting through the prudential indicators the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the plans are affordable, prudent and sustainable.

Estimated and Actual Capital Expenditure

2. The actual capital expenditure that was incurred in 2007/08 (along with the estimate originally set for the year) and the capital investment programme for the current and future years that are recommended for approval are:

Table 1 - Estimates and Actual Capital Expenditure

	Estimate 2007/08 £m	Actual 2007/08 £m	Revised 2008/09 £m	2009/10 £m	Estimates 2010/11 £m	2011/12 £m
TOTAL GF	2.180	1.900	2.861	6.603	4.816	1.277
Housing (HRA)	3.056	2.468	3.860	3.400	2.800	2.865
TOTAL CAPITAL PROGRAMME	5.236	4.368	6.721	10.003	7.616	4.142

Ratio of Net Financing Costs to Net Revenue Stream

3. Estimates of the ratio of financing costs to net revenue stream for the current and future years and actual figures for 2007/08 are set out below. The net revenue stream is the amount of the budget to be met from Formula Grant and Council Tax income. The Council financing costs are negative due to the fact that the amount of investment income it expects to receive exceeds the cost of loan charges. There is a positive figure for the HRA as the Council has historically borrowed internal funds to finance Council Housing expenditure and these costs are reimbursed through housing subsidy.

Table 2 - Ratio of Net Financing Costs to Net Revenue Stream

	Estimate 2007/08 £m	Actual 2007/08 £m	Revised 2008/09 £m	2009/10 £m	Estimates 2010/11 £m	2011/12 £m
GF	-7.96%	-9.26%	-7.18%	-4.03%	-1.37%	-0.53%
HRA	23.75%	23.55%	21.85%	20.95%	19.45%	17.87%

Estimated and Actual Capital Financing Requirement

4. Estimates of the end of year capital financing requirement for the authority for the current year and future years and the actual capital financing requirement at 31st March 2008 are:

Table 3 - Estimates and Actual Capital Financing Requirement

	Estimate 2007/08 £m	Actual 2007/08 £m	Revised 2008/09 £m	2009/10 £m	Estimates 2010/11 £m	2011/12 £m
GF	-0.331	-0.403	1.446	3.997	4.534	4.649
HRA	4.551	4.551	5.101	5.651	5.651	5.651
TOTAL	4.220	4.148	6.547	9.648	10.185	10.300

5. The Calculation of the Capital Financing Requirement (CFR) represents the Council's underlying need to finance its current and historic capital expenditure, which has not yet been charged to revenue. The change year on year will be influenced by the capital expenditure incurred within the year financed by borrowing. The anticipated borrowing requirements for 2009/10 is 3.29M (£2.74M General Fund and £0.55 HRA)
6. The treasury management function is an important part of the overall financial management of the Council's affairs. The Council has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. At any point in time, there are a number of cash flows that are positive and negative, and this is monitored and managed in terms of the investments and any overdraft in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. Any debt in the form of overdraft arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.
7. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current year and next two financial years.”

8. The The Director of Finance reports that the authority had no difficulty meeting this requirement in 2007/08., nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.
9. CLG Regulations have been issued which require full Council to approve a (Minimum Revenue Provision (MRP) policy statement in advance of each year. The MRP determines the minimum amount required to be provided through revenue to pay back the principle amount due on external borrowing. A variety of options have been provided to councils to replace the existing regulations so long as there is prudent provision. The Council is recommended to approve the following MRP policy statement:

‘For all unsupported (i.e. prudential) borrowing the Minimum Revenue Provision (MRP) will be based on the estimated life of the assets financed by borrowing in accordance with the MRP regulations’.

Authorised Limits for External Debt

10. In respect of external debt, it is recommended that the Council approves the following maximum authorised limits for its total external debt gross of investments for the next three financial years, which takes account of the latest balance sheet values of relevant items. The Council is asked to approve these limits.

Table 4 - Authorised Limits for External Debt

	Estimate 2007/08 £m	Actual 2007/08 £m	Revised 2008/09 £m	2009/10 £m	Estimates 2010/11 £m	2011/12 £m
Capital Financing Requirement	4.220	4.148	6.547	9.648	10.185	10.300
Other Liabilities (Leases)	0.905	0.905	0.711	0.534	0.357	0.209
Cash Flow Deficit / Margin	1.375		0.742	0.818	0.958	1.491
TOTAL	6.500	5.053	8.000	11.000	11.500	12.000

11. The Director of Finance reports that these authorised limits are consistent with the Council's current commitments, existing plans and

the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Director of Finance also confirms that they are based on an estimate of the most likely, prudent but not worst-case scenario with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

12. Risk analysis and risk management strategies have been taken into account; as have potential plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

Operational Boundary for External Debt

13. The Council is also asked to approve the following operational boundary for external debt for the same time period. This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as indicator to ensure that the authorised limit is not breached. In keeping with the definitions in CIPFA's Prudential Code for Capital Finance in Local Authorities, overdraft limits are not included within figures for debt. The Council is asked to approve these limits.

Table 5 - Operational Boundary for External Debt

	Estimate 2007/08 £m	Actual 2007/08 £m	Revised 2008/09 £m	2009/10 £m	Estimates 2010/11 £m	2011/12 £m
Borrowing	1.789	1.100	2.837	5.578	6.592	7.251
Other Liabilities / Cash Flow Deficit	1.567	0.905	0.863	1.022	1.008	1.049
TOTAL	3.356	2.005	3.700	6.600	7.600	8.300

14. The Council's actual external debt at 31st March 2008 remained at £1.1m, which is lower than the original figure proposed for the end of 2007/08 as borrowing requirements were met internally.
15. In taking its decisions on the budget, the Council is asked to note that the authorised limit determined for 2009/10 (see Table 4) will be the Statutory limit determined under section 3(1) of the Local Government Act 2003.

Incremental Impact on Council Tax and Housing Rents

16. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

Table 6 - Incremental Impact on Council Tax and Housing Rents

	2009/10 £m	Estimates 2010/11 £m	2011/12 £m
Council Tax at band D	1.54	2.67	1.35
Est. effect on Average weekly housing rent	0.13	0.15	0.05

Note: The above are based on the council's annual capital spending plans outlined in table 1

Treasury management strategy and annual plan for 2009/10

1. Babergh District Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
2. The full Treasury Management Strategy for 2009/10 will be presented to Strategy Committee in April 2009.
3. It is recommended that, for the purpose of setting prudential indicators, the following upper limits are set on its fixed and variable rate exposures, based upon the net debt position, for future financial years as follows:

	2009/10	2010/11	2011/12
Upper Limit of Fixed Rate Exposures (£m)	5.0	TBD	TBD
Upper Limit of Variable Rate Exposures (£m)	0	0	0

Note: The variable rate exposure has been set at zero. This gives the Council the flexibility to borrow variable debt up to the level of its investments (net position =0).

4. It is recommended that for the purpose of setting prudential indicators, the following lower and upper limits are set regarding the maturity structure of the Council's borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

Maturity Structure of existing fixed borrowing

	2009/10		2010/11		2011/12	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	30%	0%	30%	0%	30%
12 months to 2 yrs	0%	30%	0%	30%	0%	30%
2 years to 5 years	0%	30%	0%	30%	0%	30%
5 years to 10 years	0%	50%	0%	50%	0%	50%
10 yrs and above	0%	100%	0%	100%	0%	100%

5. It is recommended that the Council approve the following limits on principal sums to be invested for periods greater than 364 days. These limits apply to investments with final maturities beyond the year-end.

	2009/10	2010/11	2011/12
	£'000	£'000	£'000
Upper Limit of Principal Sums maturing beyond the year end	3,000	3,000	3,000