

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 2008/09 (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 2008/09 £m | Actual 2008/09 £m | Revised 2009/10 £m | 2010/11 £m | Estimates 2011/12 £m | 2012/13 £m |
|------------------------------------|------------------------------------|----------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------|
| TOTAL GF | 2.861 | 1.845 | 3.824 | 2.951 | 3.950 | 1.366 |
| Housing (HRA) | 3.860 | 3.395 | 3.570 | 3.604 | 2.965 | 2.975 |
| TOTAL CAPITAL PROGRAMME | 6.721 | 5.240 | 7.394 | 6.555 | 6.915 | 4.341 |

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 2008/09 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 General Fund indicator becomes positive in 2010/11 due to financing costs now exceeding the amount of investment income received. There is a large 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 2008/09 £m | Actual 2008/09 £m | Revised 2009/10 £m | 2010/11 £m | Estimates 2011/12 £m | 2012/13 £m |
|------------|------------------------------------|----------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------|
| GF | -6.63% | -6.26% | -6.07% | 0.66% | 2.45% | 3.33% |
| HRA | 21.85% | 21.76% | 20.88% | 19.81% | 20.16% | 19.54% |

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 2009 are:

Table 3 - Estimates and Actual Capital Financing Requirement

| | Estimate 2008/09 £m | Actual 2008/09 £m | Revised 2009/10 £m | 2010/11 £m | Estimates 2011/12 £m | 2012/13 £m |
|--------------|------------------------------------|----------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------|
| GF | 1.446 | 0.956 | 2.423 | 2.967 | 4.104 | 4.600 |
| HRA | 5.101 | 4.551 | 5.101 | 5.651 | 5.651 | 5.651 |
| TOTAL | 6.547 | 5.507 | 7.524 | 8.618 | 9.755 | 10.251 |

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 requirement for 2010/11 is £0.77M for the General Fund and £0.55M for the 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 Director of Finance reports that the authority had no difficulty meeting this requirement in 2008/09, nor is there any difficulty envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.
9. Council has previously approved the following Minimum Revenue Provision (MRP) policy statement. The MRP determines the minimum amount required to be provided through revenue to pay back the principle amount due on external borrowing.

'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 2008/09 £m | Actual 2008/09 £m | Revised 2009/10 £m | 2010/11 £m | Estimates 2011/12 £m | 2012/13 £m |
|-------------------------------|------------------------------------|----------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------|
| Capital Financing Requirement | 6.547 | 5.507 | 7.524 | 8.618 | 9.755 | 10.251 |
| Other Liabilities (Leases) | 0.711 | 0.543 | 0.368 | 0.219 | 0.109 | 0.000 |
| Cash Flow Deficit / Margin | 0.742 | | 1.308 | 1.063 | 1.136 | 1.149 |
| TOTAL | 8.000 | 6.050 | 9.200 | 9.900 | 11.000 | 11.400 |

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.

There is no problem if actual debt exceeds the operating boundary on occasions. This could be due to temporary borrowing, or debt rescheduling.

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 2008/09 £m | Actual 2008/09 £m | Revised 2009/10 £m | 2010/11 £m | Estimates 2011/12 £m | 2012/13 £m |
|---|------------------------------------|----------------------------------|-----------------------------------|-----------------------|-------------------------------------|-----------------------|
| Borrowing | 2.837 | 1.100 | 3.117 | 4.435 | 5.833 | 6.633 |
| Other Liabilities / Cash Flow Deficit | 0.863 | 0.543 | 1.183 | 0.765 | 0.667 | 0.567 |
| TOTAL | 3.700 | 1.643 | 4.300 | 5.200 | 6.500 | 7.200 |

14. The Council's actual external debt at 31st March 2009 remained at £1.1m, which is lower than the original figure proposed for the end of 2008/09 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 2010/11 (see Table 4) will be the “affordable borrowing limit”, 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

| | 2010/11 £ | Estimates 2011/12 £ | 2012/13 £ |
|--|----------------------|------------------------------------|----------------------|
| Council Tax at band D | 0.00 | 2.30 | 1.28 |
| Est. effect on Average weekly housing rent | 1.16 | 0.17 | -0.01 |

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

Treasury Management Indicators

Table 7 - Interest rate exposures

17. This indicator is set to control the Council’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

| Interest Rate Exposure | 2010/11 £m | 2011/12 £m | 2012/13 £m |
|---|-----------------------|-----------------------|-----------------------|
| Upper limit on fixed interest rate exposure based on net debt | 8.0 | 8.5 | 9.0 |
| Upper limit on variable interest rate exposures | 0 | 0 | 0 |

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

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Table 8 - Maturity structure of borrowing

18. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

| | Upper | Lower |
|---------------------------------|--------------|--------------|
| Under 12 months | 30% | 0% |
| 12 months and within 24 months | 30% | 0% |
| 24 months and within five years | 30% | 0% |
| Five years and within 10 years | 50% | 0% |
| 10 years and above | 100% | 0% |

This indicator applies to the financial years 2010/11, 2011/12 and 2012/13. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

Table 9 - Principal sums invested for periods longer than 364 days

19. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

| | 2010/11 £000 | 2011/12 £000 | 2012/13 £000 |
|---|-------------------------|-------------------------|-------------------------|
| Limit on principal invested beyond year end | 3,000 | 3,000 | 3,000 |