Prudential Indicators 2010-11 to 2012-13

Affordability

a) Estimates of ratio of financing costs to net revenue stream

The indicator has been calculated as the estimated net financing costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-HRA element, and by total HRA income for the HRA element. The objective is to enable trends to be identified.

The General Fund figures show decreases across the three years. This is mainly due to the impact of forecasts of rising interest rates on investment income, offsetting any increases in costs as a result of planned borrowing.

The relatively high ratio for the HRA across all years (compared to General Fund) reflects the requirement to include depreciation in the financing costs, as represented by the value of the Major Repairs Allowance (MRA). This is not required in the General Fund figures.

The figures used for the net revenue stream for 2010-11 and onwards are dependent upon the General Fund and HRA revenue budgets to be agreed by Council and are therefore subject to change. If applicable, updated figures will be provided to Cabinet and Council at the earliest opportunity.

Ratio of financing costs to net revenue stream				
		2010-11	2011-12	2012-13
		Estimate %	Estimate %	Estimate %
General Fund		6.51	4.74	3.93
HRA		18.38	18.02	18.64

Risk – Debt financing costs relating to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will be dependant on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Slippage in the capital programme, whether planned or unplanned, will delay the impacts of debt financing costs to future years.

b) Estimates of the incremental impact of new capital investment decisions on the Council Tax

This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on the Council Tax of approving additional capital expenditure.

It is anticipated that General Fund capital expenditure of £6.657m will be financed by borrowing over the three-year period from 2010-11 to 2012-13 as a result of the proposed capital programme put forward. This will generate costs to the debt financing revenue budget in the form of repayments of interest (or, for "internal borrowing" from cash flow, loss of interest on investments) and of principal (MRP). Interest costs are calculated as starting in the same year as the initial capital expenditure; MRP charges will commence from the year following the capital expenditure – i.e. from 2011-12.

New regulations that came into force in February 2008 require local authorities to make 'prudent provision' for the repayment of debt instead of using the 4% reducing balance basis that was formerly prescribed. A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be more closely aligned to the useful life of the asset or assets for which the borrowing has been carried out.

The costs shown below represent the incremental impact on Council Tax of the unsupported (or prudential) borrowing that is being met directly from revenue budgets (i.e. interest and principal repayments) from capital expenditure schemes starting in 2010-11 (and including continuation schemes from 2009-10).

In practice the incremental costs of borrowing for the capital programme are incorporated into the calculations for the revenue budget build along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

The rising trend is a result of both the delay in charging of MRP (outlined above) and the impacts of profiling of expenditure on some schemes into future years.

Estimates of incremental impact of new capital investment decisions on the council tax	
	General Fund
	£ p
2010-11	3.35
2011-12	6.68
2012-13	8.08

c) Estimate of incremental impact of new capital investment decisions on average weekly housing rent

This represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

The costs of prudential borrowing to fund HRA expenditure in a negative HRA CFR position are largely recovered through Housing Subsidy, and there is no direct impact on housing rents.

HRA revenue contributions of £1m and £400k respectively are planned for HRA capital expenditure on council dwellings in 2010-11 and 2011-12, resulting in the notional impacts shown in the table below on housing rents.

However, in practice the incremental costs of revenue impacts from the HRA capital programme are incorporated into the calculations for the HRA budget build along with all other proposed budget increases and savings, and subsidy impacts, and are considered as part of an overall package of affordability and impacts on rents.

Estimates of incremental impact of new capital investment decisions on weekly housing rents	
	HRA
	£ p
2010-11	1.57
2011-12	0.63
2012-13	0.00

Prudence

d) Net borrowing and capital financing requirement

This is the key indicator of prudence. It is intended to show that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital requirement for the current and new two financial years.

The Council's net external debt figure is a negative figure – ie investments are in excess of debt. The net external debt figure has therefore been presented as zero.

Forecast net external debt for 2010-11 falls below the adjusted Capital Financing Requirement.

Net external debt less than CFR	
	2010-11 £000
Borrowing	31,726
Less investments	57,400
Net external debt	0
2009-10 Closing CFR (Forecast)	19,481
Changes to CFR:	
2010-11	5,403
2011-12	4,951
2012-13	9,209
Adjusted CFR	39,044
Net external debt less than adjusted CFR	Yes

Risk – Where there is a significant difference between the net and the gross borrowing position the prudential code requires that the risks and benefits should be clearly stated in the annual strategy. This is covered in the Council's Treasury Strategy (Annex D; Section 9)

Capital Expenditure

e) Estimate of capital expenditure

This indicator requires reasonable estimates of the total of capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

The draft capital programme for 2010-11 to 2012-13 is included elsewhere on this agenda and the figures below are taken from that report.

Estimates include continuation schemes from previous years. Outline proposals for new bids starting in 2011-12 and 2012-13 are not included at this stage. The programme will be adjusted as necessary in line with the actual bids submitted and the resources available when the annual programmes for the two years are agreed.

Capital Expenditure				
		2010-11	2011-12	2012-13
		Estimate £000	Estimate £000	Estimate £000
General Fund		9,579	5,472	5,445
HRA		15,911	16,720	16,754
Total		25,490	22,192	22,199

Risk – There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over or under budget, changes to specifications, and slippage or acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. The risks are managed by officers on an ongoing basis, by means of active financial and project monitoring, with monthly reports to Cabinet.

The availability of financing from capital receipts, grants and external contributions also carries significant risk. This can be particularly true of capital receipts, where market conditions are a key driver to the flow of funds, causing particular problems in a depressed or fluctuating economic environment. A prudent approach has been taken to this in the proposed capital programme for 2010-11 to 2012-13; in order to minimise risk there is no reliance placed on unrealised receipts.

The financing position of the capital programme is closely monitored by officers on an ongoing basis and reported to Cabinet.

f) Estimate of capital financing requirement (CFR)

External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions.

The council is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and the following two years thereafter. A local authority that has an HRA must identify separately estimates of the HRA and General Fund CFR.

The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Council's previous, current and future capital programmes.

Capital Financing Requirement (Closing CFR)			
	2010-11	2011-12	2012-13
	31 March 2011 Estimate £000	31 March 2012 Estimate £000	31 March 2013 Estimate £000
General Fund	31,059	31,964	32,814
HRA	(6,175)	(2,129)	6,230
Total	24,884	29,735	39,044

The forecast trend is for both the GF and HRA CFR to increase over the coming three-year period as new borrowing is undertaken to support proposed capital programme expenditure. This trend is most marked for the HRA CFR, which will move from its current negative position towards a positive figure, as new borrowing is used to support expenditure on the decent homes programme, and the planned PFI schemes. This will have impacts for recharges of debt financing and debt management costs to the HRA under "Item 8" charges. Currently there is a net cost to the General Find for these charges; from 2012-13 this is likely to switch to a net cost to the HRA.

The changes to CFR for future years (2011-12 and 2012-13) are subject to future Council decisions in respect of the capital programme for those years

External Debt

g) Authorised limit for total external debt

For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities for years 1, 2 and 3.

This requires the setting for the forthcoming financial year and the following two financial years of an authorised limit for total external debt (including temporary borrowing for cash flow purposes), gross of investments, separately identifying borrowing from other long term liabilities.

The authorised limit represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers is “prudent” and be consistent with plans for capital expenditure and financing. It contains a provision for forward funding of future years capital programmes, which may be utilised if current interest rates reduce significantly but are predicted to rise in the following year.

This limit is based on the estimate of the most likely but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

The Council is asked to approve these limits and to confirm the existing delegated authority to the S.151 Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the Council. Any such changes will be reported to the Council at its next meeting following the change.

Authorised limit for external debt			
	2010-11	2011-12	2012-13
	Limit £000	Limit £000	Limit £000
Borrowing	48,000	48,000	53,000
Other long-term liabilities	2,000	2,000	2,000
TOTAL	50,000	50,000	55,000

Other long-term liabilities, shown above, relate to finance leases, which are currently at negligible values, but which may increase with the introduction of IFRS related accounting changes.
Risk – Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

h) Operational Boundary for total external debt

The proposed operational boundary is based on the same estimates as the authorised limit. However it excludes the additional headroom included within the authorised limit to allow for unusual cash movements.

The operational boundary represents a key management tool for in year monitoring by the S.151 Officer. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The Council is also asked to confirm the existing delegated authority to the S.151 Officer, within the same operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at the next meeting following the change.

Operational boundary for external debt			
	2010-11	2011-12	2012-13
	Boundary £000	Boundary £000	Boundary £000
Borrowing	43,000	43,000	48,000
Other long-term liabilities	2,000	2,000	2,000
TOTAL	45,000	45,000	50,000

Risk – Risk analysis and risk management strategies have been taken into account in setting this indicator, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

Treasury Management

i) Adoption of the CIPFA Code of Practice for Treasury Management

The Prudential Code requires that the local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes.

On 19 November 2007 the Council approved updated Financial Regulations, including at paragraph 5.9 the adoption of CIPFA's Treasury Management in the Public Services: Code of Practice, and the specific adoption of the key recommendations as described in Section 4 of that code.

In the light of the impacts on local authorities of the Icelandic bank situation in 2008, CIPFA has now published (in 2009) fully revised second editions of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the Guidance Notes for Local Authorities, including the template for the revised Treasury Management Policy Statement.

The Treasury Management Strategy 2010-11 to 2012-13 report on this agenda asks Cabinet to recommend to Council that they adopt the revised Code as set out at Annex A of that report, replacing paragraph 5.9 of the existing Financial Regulations.

Fully updated TMPs and TMP Schedules are also included in the proposed Treasury Management Strategy for 2010-11 to 2012-13.

Risk – Effective risk management is a fundamental requirement for the treasury management function, and this theme runs explicitly through the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Council's Treasury Management Strategy for 2010-11 to 2012-13 discusses the ways in which treasury management risk will be determined, managed and controlled.

Ensuring that treasury management is carried out in accordance with good professional practice is an essential feature of prudence. The treasury management indicators required by the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes and included in the proposed Treasury Management Strategy for 2010-11 to 2012-13 are designed to help demonstrate prudence.