

Appendix C – Revised Prudential Indicators 2013/14 – 2015/16

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt 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 financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Chief Finance Officer reports that the Authority had no difficulty meeting this requirement in 2012/13, nor are any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2013/14 Estimate £M's	2014/15 Estimate £M's	2015/16 Estimate £M's
Non-HRA	80.2	60.5	76.5
HRA	11.0	14.8	10.9
Total	91.2	75.3	87.5

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£M's	£M's	£M's
Capital receipts	1.7	6.5	12.1
Government Grants	43.8	24.1	16.9
Major Repairs Allowance			
Use of Negative CFR			
Revenue contributions	10.8	14.6	10.7
Total Financing	56.2	45.2	39.7
Supported borrowing			
Unsupported borrowing	35.0	30.1	47.7
Total Financing and Funding	91.2	75.3	87.5

The table shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than borrowing. Where possible this will be done by internal borrowing

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	%	%	%
Non-HRA	7.14	8.50	10.48
HRA	14.4	13.9	13.3
Total	8.1	9.3	10.9

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£M's	£M's	£M's
Non-HRA	261.2	283.8	323.2
HRA*	165.0	165.0	165.0
Total CFR	426.2	448.8	488.2

7. Incremental Impact of Capital Investment Decisions:

7.1 As an indicator of affordability, the table below shows the notional impact of capital investment decisions on Council Tax and Housing Rent levels and represent the impact on these if the financing of the capital programme were to be funded by taxes and rents. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	23.14	31.29	32.49
Increase in Average Weekly Housing Rents	0.34	0.51	0.51

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit is the statutory limit for borrowing determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

8.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2013/14	2014/15	2015/16
	Estimate £M's	Estimate £M's	Estimate £M's
Authorised Limit for Borrowing	446.0	462.5	502.8
Authorised Limit for Other Long-term Liabilities	24.6	23.8	23.2
Authorised Limit for External Debt	470.6	486.3	526.1
Operational Boundary for Borrowing	436.0	452.5	492.8
Operational Boundary for Other Long-term Liabilities	22.1	21.3	20.7
Operational Boundary for External Debt	458.1	473.8	513.6