Prudential Indicators 2009-10 to 2011-12

Capital Expenditure Prudential Indicators

a) 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 2009-10 to 2011-12 is included elsewhere on this agenda and the 2009-10 to 2011-12 figures below are taken from that report.

The 2008-09 figures, which are included for completeness, are taken from the latest proposed budget in the Capital Monitoring – Position as at 30 November 2008 report, which was approved by Cabinet on 4 February.

Estimates for 2010-11 and 2011-12 include continuation schemes from previous years. Outline proposals for new bids starting in those years are not included at this stage. The programme for 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				
	2008-09	2009-10	2010-11	2011-12
	Latest Estimate £000	Estimate £000	Estimate £000	Estimate £000
General Fund	10,840	3,834	970	104
HRA	10,105	12,429	13,777	13,670
Total	20,945	16,263	14,747	13,774

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 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 rapidly changing economic environment. A prudent approach has been taken to this in the proposed capital programme for 2009-10 to 2011-12; in order to minimise risk the reliance on forecast receipts has been kept to an absolute minimum.

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

b) 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.

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. The current years estimated closing CFR is also shown for completeness.

Capital Financing Requirement (Closing CFR)				
	2008-09	2009-10	2010-11	2011-12
	31 March 2009 Estimate £000	31 March 2010 Estimate £000	31 March 2011 Estimate £000	31 March 2012 Estimate £000
General Fund	25,386	25,319	24,183	23,064
HRA	(7,229)	(6,675)	(5,605)	(535)
Total	18,157	18,644	18,578	22,529

The forecast trend is for the GF CFR to decrease, as repayments of debt principal in the form of Minimum Revenue Provision (MRP) are expected to be in excess of planned borrowing in each of the forthcoming three years. Conversely the HRA CFR is expected to increase, moving from its negative position towards a positive figure, as new borrowing is used to support expenditure on the decent homes programme.

The changes to CFR for future years (2010-11 and 2011-12) are subject to future Council decisions in respect of the capital programme for those years. The Council currently has no plans to undertake further GF prudential borrowing in 2010-11 and 2011-12, and the forecasts have been prepared on that basis

Prudential Indicators of Affordability

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

The Code requires separate indicators for the HRA and non-HRA element.

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 have increased from the 2008-09 equivalents, which were all below 1%, due to reduced income from investments in the prevailing interest rate environment, and to additional costs of capital financing in the early years following purchase under new MRP regulations discussed at (b) above.

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 2009-10 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				
		2009-10	2010-11	2011-12
		Estimate %	Estimate %	Estimate %
General Fund		4.90%	6.68%	5.45%
HRA		17.26%	17.25%	17.27%

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.

d) 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 more capital expenditure.

It is anticipated that General Fund capital expenditure of £828k will be financed by borrowing in 2009-10. This will generate repayments of interest and principal (MRP) to be charged against the debt financing revenue budget. Interest is estimated as starting from December 2009; MRP charges will commence from the year following the capital expenditure – i.e. from 2010-11.

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 impact of the new regulations is an increase in the minimum revenue provision that has to be made for the early years following expenditure. This will affect the Council's revenue budgets from 2009-10 onwards, in respect of capital expenditure financed by borrowing from 2008-09 onwards. This impact is because of the nature of the Council's capital expenditure, which tends to be on short life assets such as IT hardware and software rather than long life assets such as buildings or infrastructure.

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 2009-10.

Estimates of incremental impact of new capital investment decisions on the Council Tax	
	General Fund
	£ p
2009-10	0.14
2010-11	4.42
2011-12	4.38

e) 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.

There are no plans to finance HRA capital expenditure in 2009-10 to 2011-12 from contributions from the HRA revenue budgets for 2009-10 to 2011-12. Prudential borrowing is planned as a funding source in 20010-11 and 2011-12, but due to the negative HRA CFR the costs of this are recovered through Housing Subsidy, and there is no direct impact on housing rents. There is therefore no impact on average weekly rents arising from the capital expenditure plans for these years.

Estimates of incremental impact of new capital investment decisions on the Council Housing Rents	
	HRA
	£ p
2009-10	0.00
2010-11	0.00
2011-12	0.00

Prudence

f) 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.

Net external debt at the end of three years is expected to fall below the forecast Capital Financing Requirement.

Net external debt less than CFR	
	2009-10 £000
Borrowing	31,077
Less investments	66,000
Net external debt	0
2008-09 Closing CFR (Forecast)	18,157
Changes to CFR:	
2009-10	487
2010-11	(66)
2011-12	3,951
Adjusted CFR	22,529
Net external debt less than adjusted CFR	Yes

External Debt Prudential Indicators

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 would be reported to the Council at its next meeting following the change.

Authorised limit for external debt				
	2008-09	2009-10	2010-11	2011-12
	Limit £000	Limit £000	Limit £000	Limit £000
Borrowing	41,000	41,000	41,000	41,000
Other long-term liabilities	2,000	2,000	2,000	2,000
TOTAL	43,000	43,000	43,000	43,000

Other long-term liabilities, shown above, relate to insurance reserves. Any future finance leases entered into would also be included in this category.

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				
	2008-09	2009-10	2010-11	2011-12
	Boundary £000	Boundary £000	Boundary £000	Boundary £000
Borrowing	36,000	36,000	36,000	36,000
Other long-term liabilities	2,000	2,000	2,000	2,000
TOTAL	38,000	38,000	38,000	38,000

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.

<u>Treasury Management Prudential Indicators</u>

i) Upper limits on fixed interest rate exposures

This indicator sets the upper limits to which the Council is exposed to the effects of changes in fixed interest rates, and is calculated as borrowing that is at fixed rates less investments that are at fixed rates.

The prudential code guidance states that where in doubt borrowing and investments should be treated as being at variable rates for the purposes of this and the following indicator. With this in mind, borrowing in the form of LOBOs (Lenders Option, Borrowers Option) has been treated as being at variable rates as the rates are reviewed at agreed intervals of typically 6 months or a year.

This limit can be in terms of principal sums or the associated interest, and it can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount of principal sums. Officers consider this to be the most transparent and method and the more straightforward to monitor.

The 2008-09 indicator is shown for completeness.

The limit has been set at a level that allows for flexibility. It allows for all new long-term borrowing for 2008-09 and 2009-10 to be at fixed rates (e.g. PWLB loans) and for the option of rescheduling of existing LOBOs to fixed rate loans. All borrowing decisions will be taken in line with best practice and prevailing market conditions and in consultation with the Council's treasury management advisers.

The limit also allows for a range of possibilities in respect of the value of temporary investments at any one point in time, as this is dependant on the cash position of the authority, and also for all the Council's temporary investments at the budgeted level of £66m to be in the form of fixed rate investments; typically the figure is around 80% to 90%.

Since the Council has an excess of temporary investments over debt, the calculation should result in a negative figure. The upper limit has therefore been set at zero – i.e. a positive result representing an excess of fixed rate debts over temporary investment would exceed the limit.

Upper limits on fixed interest rate exposures	
	Upper Limit £000
2008-09	0
2009-10	0
2010-11	0
2011-12	0

j) Upper limits on variable interest rate exposures

This indicator sets the upper limits to which the Council is exposed to the effects of changes in variable interest rates, and is calculated as borrowing that is at variable rates less investments that are at variable rates.

The prudential code guidance states that where in doubt borrowing and investments should be treated as being at variable rates for the purposes of this and the following indicator. With this in mind, borrowing in the form of LOBOs (Lenders Option, Borrowers Option) has been treated as being at variable rates as the rates are reviewed at agreed intervals of typically 6 months or a year.

This limit can be in terms of principal sums or the associated interest, and it can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount of principal sums. Officers consider this to be the most transparent and method and the more straightforward to monitor.

The 2008-09 indicator is shown for completeness

The limit has been set at a level that allows for flexibility. It allows for all new long-term borrowing for 2008-09 and 2009-10 to be at variable rates or in the form of LOBOs. All borrowing decisions will be taken in line with best practice and prevailing market conditions and in consultation with the Council's treasury management advisers.

The limit also allows for a range of possibilities in respect of the value of temporary investments at any one point in time, as this is dependant on the cash position of the authority, and also for none of the Council's temporary investments at the budgeted level of £66m to be in the form of variable rate investments; typically the figure is around 10% to 20%.

The limit has been set in line with the Council's operational boundary for external borrowing (excluding long term liabilities) at (h) above.

Upper limits on variable interest rate exposures	
	Upper Limit £000
2008-09	38,000
2009-10	38,000
2010-11	38,000
2011-12	38,000

k) <u>Principal sums invested for periods longer than 364 days</u>

Under the Local Government Act 2003 and the DCLG (formerly ODPM Guidance on Local Authority Investments 2004, all Councils are now permitted to invest for periods exceeding 1 year (or 364 days). The Council is required to set a limit to the level of such investments it might wish to make.

This limit can be expressed as a percentage or as an absolute amount (i.e. a monetary figure). The Council has chosen to work to a limit represented as an absolute amount as officers consider this to be the most transparent and method and the more straightforward to monitor.

The limit has been set at a level that would allow for monies not anticipated to be spent in year e.g. capital receipts, to be invested for longer periods if interest rates are favourable.

A increase in the limit is proposed for 2009-10 and onwards, in order to allow more flexibility to take advantage of favourable long term rates when market conditions allow.

Upper limit on investments for periods longer than 364 days	
	Upper Limit £000
2008-09	6,000
2009-10	10,000
2010-11	10,000
2011-12	10,000

Risk – This upper limit has been set at a prudent level (approx 15% of forecast total external investments) in order not to compromise cash flow liquidity.

l) Prudential limits for the maturity structure of borrowing

This represents the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period where the periods in question are:

- Under 12 months;
- 12 months and within 24 months;
- 24 months and within 5 years;
- 5 years and within 10 years;
- 10 years and above.

This sets both upper and lower limits for 2009-10 with respect to the maturity structure of the Council's borrowing.

Maturity structure of borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	25%
1-2 years	0%	25%
2-5 years	0%	50%
5-10 years	0%	100%
Over 10 years	0%	100%

Risk – The debt maturity profile is actively managed to ensure that debt maturity is prudently spread across future years. This ensures that the Council can properly plan for the maturity of its borrowings, and is not exposed to unmanageable risks.

LOBO loans of £15.6m currently due for repayment in 2014-15 will need to be rescheduled or repaid, in full or part, in order for the 2-5 year limits not to be breached in 2010-11 or 2011-12. Officers will be looking, during 2009-10, at optimum options to manage this.

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

The Prudential Code requires that the local authority has adopted the CIPFA Code of Practice for Treasury Management in Public Services.

The Council adopted the CIPFA Code of Practice for Treasury Management in the Public Services following its publication in 2001. This was formally minuted as a decision at the meeting of 21 January 2008.

Treasury Management Practices (TMPs) and TMP Schedules, setting out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities, were approved by Cabinet on 3 July 2006. Council approved a revision to the Schedule to TMP1 Treasury Risk Management on 8 December 2008. Fully updated TMPs and TMP Schedules are included in the proposed Treasury Management Strategy report brought to Cabinet on 19 February 2009.