Appendix B

Prudential Indicators 2012-13 to 2014-15

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 figures for both HRA and General Fund are forecast to remain fairly stable across the three years. This is due in part to the interest rate forecasts used in the projections, which have been set at the same level (0.70%) in each year, and in part to the stability of external debt assumptions over the period.

The gentle increase in the HRA indicator arises from the expectation of increasing level of cash balances available for investment or the write down of debt over the three years.

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 2012-13 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				
		2012-13	2013-14	2014-15
		Estimate %	Estimate %	Estimate %
General Fund		6.98	6.98	6.40
HRA		28.51	27.42	26.92

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. Carry forwards 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.

Revenue budget impacts may arise from the following:

- Direct revenue contributions
- Lost interest on use of revenue contributions
- Lost interest on use of capital receipts
- Lost interest on use of internal borrowing
- Lost interest on use of earmarked reserves
- Interest on use of external borrowing
- Revenue running costs or savings

The costs shown below represent the incremental impact on Council Tax from capital expenditure schemes starting in 2012-13 and planned for 2013-14 and 2014-15.

Estimates of incremental impact of new capital investment decisions on the council tax	
	General Fund
	£ p
2012-13	0.21
2013-14	0.77
2014-15	0.95

These are notional figures. 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 normal and is primarily a result of two factors. Firstly the cumulative effect of the expenditure, which is spread over the three year period, and secondly the delay in the charging of MRP, whereby annual charges start the year after expenditure is incurred.

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

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

Revenue budget impacts may arise from the following:

- Direct revenue contributions
- Lost interest on use of revenue contributions
- Lost interest on use of capital receipts
- Lost interest on use of internal borrowing
- Lost interest on use of earmarked reserves
- Lost interest on use of Major Repairs Allowance (MRA)
- Interest on use of external borrowing
- Revenue running costs or savings

The costs shown below represent the incremental impact on weekly housing rents from capital expenditure schemes starting in 2012-13 and planned for 2013-14 and 2014-15.

Estimates of incremental impact of new capital investment decisions on weekly housing rents	
	HRA
	£ p
2012-13	5.08
2013-14	0.20
2014-15	19.88

These are notional figures. 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 are considered as part of an overall package of affordability and impacts on rents.

HRA capital expenditure is planned to increase each year over the three-year period. The significant variation in figures in the three years correlates to the level of direct revenue contribution planned in each year - £3m in 2012-13, zero in 2013-14 and £12m in 2014-15. The availability of additional revenue funds to support capital expenditure is linked to the HRA self financing reforms; the abolition of subsidy payments to government (replaced by debt financing costs) are expected to allow significant capital investment, initially to meet decent homes standards, and subsequently, from 2014-15, to maintain those standards and to invest in estate regeneration and/or new homes build. Actual rent rises will remain in line with the government rent restructuring policy.

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.

Forecast net external debt for 2012-13 falls below the adjusted Capital Financing Requirement.

Net external debt less than CFR	
	2012-13 £000
Borrowing	215,809
Less investments	81,970
Net external debt	133,839
2011-12 Closing CFR (Forecast)	221,726
Changes to CFR:	
2012-13	(7,658)
2013-14	(10,974)
2014-15	528
Adjusted CFR	203,622
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 (Appendix F; 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 2012-13 to 2014-15 is included elsewhere on this agenda and the figures below are based on that report, adjusted for known carry forwards from the 2011-12 agreed programme.

Estimates include continuation schemes and known carry forwards from previous years, where applicable. Outline proposals for new bids starting in 2013-14 and 2014-15 are not included for General Fund schemes 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				
		2012-13	2013-14	2014-15
		Estimate £000	Estimate £000	Estimate £000
General Fund		12,753	2,975	1,475
HRA		17,830	24,460	52,145
Total		30,583	27,435	53,260

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 slowdown 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 dashboard reporting 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 these funding streams in the proposed capital programme for 2012-13 to 2014-15.

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)			
	2012-13	2013-14	2014-15
	31 March 2013 Estimate £000	31 March 2014 Estimate £000	31 March 2015 Estimate £000
General Fund	31,686	31,554	31,499
HRA	182,382	171,540	172,122
Total	214,068	203,094	203,621

The forecast trend for the General Fund CFR is a very gentle decrease over the forthcoming three-year period, as the amount of proposed borrowing is offset by annual repayments of principal (Minimum Revenue Provision).

The HRA CFR shows the significant impacts of the new debt taken on in 2011-12 to meet the requirements of HRA self financing reforms. The CFR is shown as reducing year on year, reflecting annual write down of HRA debt from HRA revenue resources.

The changes to CFR for future years (2013-14 and 2014-15) 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			
	2012-13	2013-14	2014-15
	Limit £000	Limit £000	Limit £000
Borrowing	245,000	245,000	245,000
Other long-term liabilities	5,000	5,000	5,000
TOTAL	250,000	250,000	250,000

The authorised limit is set at an amount that allows a contingency for any additional unanticipated or short-term borrowing requirements over and above the operational boundary during the period (see (h) below).

Other long-term liabilities relate to finance leases and credit arrangements.

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 the Council's cash flow requirements.

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			
	2012-13	2013-14	2014-15
	Boundary £000	Boundary £000	Boundary £000
Borrowing	240,000	240,000	240,000
Other long-term liabilities	5,000	5,000	5,000
TOTAL	245,000	245,000	245,000

The borrowing element of the operational boundary has been set with reference to the maximum Capital Financing Requirement (CFR) over the coming three years.

Other long-term liabilities relate to finance leases and credit arrangements.

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 the Council's cash flow requirements.

i) **HRA Limit on Indebtedness**

The local authority is required to report the level of the limit imposed (or subsequently amended) at the time of implementation of self-financing by the Department for Communities and local Government. It is the HRA capital financing requirement that will be compared to this limit.

The HRA limit on indebtedness is £208.401m.

Risk – The HRA business plan has been modelled with full regard to the CLG debt cap requirements. The risk assessment of the business plan does not identify the breach of the debt cap as a risk. However there is an identified risk that inflation levels may change more than expected, resulting in the financial assumptions in the business plan proving to be inaccurate, leading to reduced headroom for borrowing. In this instance borrowing may reach (but not breach) the debt cap.

Treasury Management

j) 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. The aim is to ensure that treasury management is led by a clear and integrated forward looking treasury management strategy, and a recognition of the pre-existing structure of the authority's borrowing and investment portfolios.

This Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Code). The latest adoption of the Code was formalised at the Council meeting of 25 February 2010, and is included in the Council's Financial Regulations.

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 prime policy objectives of the Council's investment activities are the security and liquidity of funds, and return on investments will be considered only once these two primary objectives have been met. The Council will thereby avoid exposing public funds to unnecessary or unquantified risk.

The Council's Treasury Management Strategy Report for 2011-12 to 2013-14 (including appendices) discusses the ways in which treasury management risk will be determined, managed and controlled.