

APPENDIX 1B

Prudential Indicators 2013/14 – 2015/16

1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members overview and confirm capital expenditure plans.
- 1.1 **Capital expenditure:** This is the first prudential indicator, set out in table 1 below, and is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Members are asked to approve the capital expenditure forecasts:

Table 1: Capital Expenditure Forecast 2013 to 2016

Capital expenditure £'000s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Adult & Community Service	12,757	6,205	5,939	4,350	170
Children's Services	61,842	37,452	51,168	21,775	5,305
Environment & Housing General Fund	4,239	8,136	3,119	-	-
Resources	15,830	15,739	5,933	2,892	-
Capitalisation directive	2,510	3,000	3,000	3,000	-
General Fund	97,178	70,532	69,159	32,017	5,475
HRA	30,968	43,350	83,240	74,090	45,620
HRA Settlement	265,912	-	-	-	-
HRA Total	296,880	43,350	83,240	74,090	45,620
Total	394,058	110,937	157,819	106,107	51,095

The above table excludes other long term liabilities, such as PFI and leasing arrangement which already include borrowing instruments.

The table 2 summarises the above capital expenditure plans and how these plans will be financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Capital Expenditure Financing Plans 2013 to 2016

Capital expenditure	2011/12	2012/13	2013/14	2014/15	2015/16
£'000s	Actual	Estimate	Estimate	Estimate	Estimate
General Fund	97,178	67,587	74,579	32,017	5,475
HRA	30,968	43,350	83,240	74,090	45,620
HRA Settlement	265,912	-	-	-	-
Total	394,058	110,937	157,819	106,107	51,095
Financed by:					
Capital Receipts	-	6,037	12,429	5,700	1,920
Capital Grants and Contributions	79,728	54,161	96,990	33,557	7,225
Revenue contributions	1,440	607	-	-	-
Capital Reserves	-	1,195	-	-	-
HRA Resources	7,638	33,850	42,260	45,250	41,950
Net financing need for the year	305,252	15,087	6,140	21,600	-

1.2 The Council's borrowing requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Table 3 sets out the CFR until 2015/16. The Council is asked to approve the CFR projections.

Table 3: Council's CFR 2012/13 to 2015/16

£'000s	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Capital Financing Requirement					
CFR – non housing	225,316	232,312	229,121	222,447	211,986
CFR – housing	260,122	260,122	260,122	277,649	277,649
Total CFR	485,438	492,434	489,243	500,096	489,635
Movement in CFR	333,384	6,996	-3,191	10,853	-10,461
Movement in CFR represented by					
Net financing need for the year (above)	340,324	15,087	6,140	21,527	-
Less MRP and other financing movements	-6,940	-8,091	-9,331	-10,674	-10,461
Movement in CFR	333,384	6,996	-3,191	10,853	-10,461

2. Affordability prudential indicators

The previous section covered the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.1 Actual and estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

%	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
General Fund	6.56	6.90	9.78	11.29	10.81
HRA (inclusive of settlement)	-0.43	8.06	8.19	7.98	7.88

2.2 Estimates of the incremental impact of capital investment decisions on council tax (Band D)

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are

based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Council tax - band D	0.01	(0.03)	(0.01)	(0.01)	0.00

2.3 Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

£	2011/12 Actual	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Weekly housing rent levels	(0.01)	(0.03)	0.00	0.03	0.00

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3. Treasury Indicators: Limits to Borrowing Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2013/14	2014/15	2015/16
Interest rate exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
<i>Limits on fixed interest rates:</i>			
• <i>Debt only</i>	100%	100%	100%
• <i>Investments only</i>	80%	80%	80%
<i>Limits on variable interest rates</i>			
• <i>Debt only</i>	70%	70%	70%
• <i>Investments only</i>	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2013/14		
	Lower	Upper
Under 12 months	0%	20%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2013/14		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

4. Treasury Indicators: Limits to Borrowing Activity

4.1 The Operational Boundary

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £'000s	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing	326,000	372,000	394,000	394,000
Long term liabilities	58,000	57,000	55,000	53,000
Total	384,000	429,000	449,000	447,000

4.2 The Authorised Limit for external borrowing

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- 1) This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- 2) The Council is asked to approve the following Authorised Limit:

Authorised Limit £'000s	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing	434,000	432,000	445,000	436,000
Long term liabilities	68,000	67,000	65,000	63,000
Total	502,000	499,000	510,000	499,000

4.3 HRA CFR Limit

Separately, the Council is also limited to a maximum HRA CFR through the HRA self financing regime. This limit is currently:

HRA Debt Limit £'000s	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Total	277,649	277,649	277,649	277,649

5. Investment treasury indicator and limit

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days £'000s	2012/13	2013/14	2014/15	2015/16
Principal sums invested > 364 days	50,000	50,000	50,000	50,000