

## Prudential Indicators 2014/15 – 2016/17

1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the PIs, which are designed to assist members overview and confirm capital expenditure plans.
- 1.1 **Capital expenditure** 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 in Table 1:

Table 1: Capital Expenditure Forecast 2013 to 2017

Capital expenditure	2012/13 Actual £000	2013/14 Approved £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
Adult & Community	4,163	7,703	7,522	170	0
Children's Services	33,562	34,740	73,948	31,620	0
Environment & Housing	8,081	4,816	0	0	0
Chief Executive	9,448	10,315	2,544	475	0
Finance lease & PFI	2,219	0	0	0	0
<b>General Fund</b>	<b>57,473</b>	<b>57,574</b>	<b>84,014</b>	<b>32,265</b>	<b>0</b>
HRA	31,060	80,587	92,315	41,639	39,757
<b>Total</b>	<b>88,533</b>	<b>138,161</b>	<b>176,329</b>	<b>73,904</b>	<b>39,757</b>

Table 2 below 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 2017

Capital expenditure	2012/13 Actual £000	2013/14 Approved £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
General Fund	57,473	56,991	84,014	32,265	(TBC)
HRA	31,059	81,170	92,315	41,639	39,757
<b>Total</b>	<b>88,532</b>	<b>138,161</b>	<b>176,329</b>	<b>73,904</b>	<b>39,757</b>
<b>Financed by:</b>					
Capital Grants	43,825	55,100	85,536	31,620	0
Section 106	6,120	1,009	0	0	
Revenue Contributions	931	846	400	0	0
Capital Reserves	1,056	452	765	0	0
Capital Receipts	4,521	25,684	13,026	6,375	0
HRA Contributions	17,548	48,090	65,552	35,629	39,757
<b>Sub-Total</b>	<b>74,001</b>	<b>131,181</b>	<b>165,279</b>	<b>73,624</b>	<b>39,757</b>
<b>Net financing need for the year</b>	<b>14,531</b>	<b>6,980</b>	<b>11,050</b>	<b>280</b>	<b>0</b>

## 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 2016/17. The Council is asked to approve the CFR projections.

**Table 3: Council's CFR 2012/13 to 2016/17**

<b>Capital expenditure</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>Actual £000</b>	<b>Approved £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>
<b>Capital Financing Requirement</b>					
CFR – General Fund	223,856	221,039	212,448	203,107	194,984
CFR – housing	267,722	267,722	277,649	277,649	277,649
<b>Total CFR</b>	<b>491,578</b>	<b>488,761</b>	<b>490,097</b>	<b>481,756</b>	<b>472,633</b>
<b>Movement in CFR</b>	6,140	(2,817)	1,336	(9,341)	(8,483)
<b>Movement in CFR represented by</b>					
Net financing need for the year	14,531	6,980	11,050	280	0
Less MRP and other financing movements	(8,391)	(9,797)	(9,714)	(9,621)	(8,483)
<b>Movement in CFR</b>	<b>6,140</b>	<b>(2,817)</b>	<b>1,336</b>	<b>(9,341)</b>	<b>(8,483)</b>

## 2. Affordability prudential indicators

The previous section covered the overall capital and control of borrowing PIs, but within this framework PIs 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 PI 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.

%	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Estimate	Estimate	Estimate	Estimate
<b>General Fund</b>	5.1	6.0	6.1	6.6	tbc
<b>HRA</b>	9.0	9.1	9.3	9.0	8.8

**2.2 Estimates of the incremental impact of capital investment decisions on council tax (Band D)** - this PI identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans. The expectation is that the budget will be based on approved capital schemes' existing commitments and current plans but, if on review, this is not the case this will be reported to Members.

£	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Estimate	Estimate	Estimate	Estimate
<b>Council tax - band D</b>	0.00	0.00	0.00	0.00	0.00

**2.3 Estimates of the incremental impact of capital investment decisions on housing rent levels** - similar to the council tax calculation, this PI 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 plans, expressed as a discrete impact on weekly rent levels.

**Incremental impact of capital investment decisions on housing rent levels**

£	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Estimate	Estimate	Estimate	Estimate
<b>Weekly housing rent levels</b>	0.00	0.00	0.00	0.00	0.00

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

**3. Investment treasury indicator and limit for investments 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. They are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit:

£'000s	2013/14	2014/15	2015/16	2016/17
<b>Maximum principal sums invested &gt; 364 days</b>	50,000	50,000	50,000	50,000

**4. 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:

<b>Interest rate exposures</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	70%	70%	70%
<b>Limits on fixed interest rates:</b>			
• <b>Debt only</b>	100%	100%	100%
• <b>Investments only</b>	80%	80%	80%
<b>Limits on variable interest rates</b>			
• <b>Debt only</b>	70%	70%	70%
• <b>Investments only</b>	80%	80%	80%

<b>Maturity structure of fixed interest rate borrowing 2014/15</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	20%
<b>12 months to 2 years</b>	0%	40%
<b>2 years to 5 years</b>	0%	70%
<b>5 years to 10 years</b>	0%	70%
<b>10 years and above</b>	0%	100%

<b>Maturity structure of variable interest rate borrowing 2014/15</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	40%
<b>12 months to 2 years</b>	0%	40%
<b>2 years to 5 years</b>	0%	70%
<b>5 years to 10 years</b>	0%	70%
<b>10 years and above</b>	0%	80%

## 5. Treasury Indicators: Limits to Borrowing Activity

- 5.1 **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.

<b>Operational boundary</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>£'000s</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>Borrowing</b>	336,000	375,000	395,000	395,000
<b>Long term liabilities</b>	60,000	58,000	56,000	54,000
<b>Total</b>	<b>396,000</b>	<b>433,000</b>	<b>451,000</b>	<b>449,000</b>

- 5.2 **The Authorised Limit for external borrowing** – this represents a control on the maximum level of borrowing, with a limit set, beyond which external borrowing is prohibited. This limit must 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. It is also a 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. The Council is asked to approve the following Authorised Limit:

<b>Authorised Limit £'000s</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>
<b>Borrowing</b>	442,000	441,000	445,000	438,000
<b>Long term liabilities</b>	60,000	59,000	57,000	55,000
<b>Total</b>	<b>502,000</b>	<b>500,000</b>	<b>502,000</b>	<b>493,000</b>

**5.3 HRA CFR Limit** - the Council is also limited to a maximum HRA CFR through the HRA self financing regime. This limit is currently:

<b>HRA Debt Limit £'000s</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>
<b>Total</b>	277,649	277,649	277,649	277,649