

**PRUDENTIAL INDICATORS FOR 2011/2012 ONWARDS****1. INTRODUCTION**

- 1.1 The Prudential Capital Finance system came into effect on 1st April 2004.
- 1.2 The Prudential Capital Finance system replaced the previous system of basic and supplementary credit approvals allocations ( BCA and SCA ) from Central Government and allows authorities to borrow as much as they can prudently afford to pay back from their revenue resources ( subject to national safeguards ). CIPFA developed the Prudential Code for Capital Finance in Local Authorities ( the Prudential Code ) ( revised in 2009 ) to provide a mechanism ( the Prudential Indicators ) to enable Councils to ensure, that in line with the new freedom given, their capital investment plans are affordable, prudent and sustainable. Thus the Prudential Indicators provide an assessment of how much unfunded ( i.e. from within its own resources ) borrowing can be afforded by an authority. Central Government continues to assess through the Supported Level of Capital Expenditure ( SCE ) process what authorities should be borrowing in order to fund their capital programmes and will provide revenue support for this through either RSG, Housing Subsidy or Specific Grant.
- 1.3 There are no nationally prescribed Prudential Indicators, instead it is up to the Council to set its own Prudential Indicators having had regard to its own individual set of circumstances. The Council will then be able to demonstrate that its capital investment proposals are affordable, prudent and sustainable.
- 1.4 The Prudential Indicators are divided into groups covering Affordability, Prudence, Capital Expenditure, External Debt and Treasury Management. This appendix explains what the Prudential Indicators are as well as setting them for 2011/12 and subsequent financial years where appropriate. Certain indicators are required to be completed separately for the General Fund (GF) and Housing Revenue Account ( HRA ) whilst others relate to the whole authority only.

**2. THE INDICATORS****2.0 Affordability - Ratio of financing costs to net revenue stream**

- 2.1 This ratio sets an upper limit on the proportion of the Council's net revenue streams both for GF and HRA which goes to service debt.
- 2.2 The table below shows the ratios proposed for the General Fund, Housing Revenue Account and Overall as required by the Prudential Code.

<b>Year</b>	<b>General Fund</b>	<b>Housing Revenue Account</b>	<b>Overall</b>
2011/12	0.00% to -5.00%	17.50% to 22.50%	7.50% to 12.50%
2012/13	-1.50% to -6.50%	17.50% to 22.50%	7.50% to 12.50%
2013/14	-2.50% to -7.50%	13.00% to 18.00%	7.50% to 12.50%

Year	General Fund	Housing Revenue Account	Overall
<b>For information :-</b>			
2009/10 Actual	-7.10%	21.04%	8.25%
2010/11 Estimate	-2.50% to +2.50%	20.00% to 25.00%	7.50% to 12.50%

- 2.3 It is felt best to have a ratio which is a range rather than a precise figure as at this point in time it is difficult to predict what long term interest rates will be in the future and even a small variation in the interest rate at which borrowing is incurred could cause a ratio based on a precise percentage to be breached but with little effect on the Authority's finances.
- 2.4 There will be a need to monitor these ratios during the year and, if necessary, to take remedial action to avoid them being breached. It is recommended that the trigger point be set at the lowest point of each range. This will give sufficient time to remedy the situation.

### **3.0 Affordability - Estimates of the incremental impact of the new capital investment decisions on the Council Tax / Average Weekly Housing Rents**

- 3.1 This is seen as a fundamental indicator of affordability as it allows the Council to see what impact additional capital expenditure ( including revenue consequences ) and the way it is financed has on the Council Tax/Housing Rents and therefore whether or not any resultant increases are either financially or politically acceptable. The table below shows the incremental impact on the Council Tax and Housing Rents of the capital programmes in paragraph 5.2:-

Year	Council Tax	Housing Rent
2011/12	£0.78	£0.00
2012/13	£1.51	£0.00
2013/14	£2.14	£0.00

- 3.2 The impact on the Council Tax is positive due in the main to the revenue effects of replacing the cremators at the Crematorium, the replacement of the Committee Management System and the lost investment interest on the resources used to finance the capital programme.
- 3.3 There is a nil impact on Housing Rents because the current H.R.A. element of the Housing Investment Programme is fully resourced from revenue and therefore there is no need to borrow or consume investments.

#### **4.0 Prudence - Net Borrowing and the Capital Financing Requirement**

- 4.1 In order to ensure that in the medium term, net borrowing will only be for a capital purpose, net external borrowing ( i.e. borrowing less investments ) at the end of the period, in this instance 2012/13, should not, except in the short term, exceed the total capital financing requirement for the preceding year and any additional capital financing requirement for the current and subsequent two years i.e. it ensures that you don't borrow more than you have to! Currently it is estimated that net external borrowing at the end of 2012/13 will amount to -£15,117,714 ( as the Council has more investments than borrowings ) and the total additional capital financing requirement for the same period is estimated to be nil as no prudential long term borrowing is envisaged during the period therefore WDC meets this indicator. However, when more details are known about the impact of Housing self financing particularly with regard to the levels and mix of debt that this Council will have to take on it will be necessary to review this indicator.

#### **5.0 Capital Expenditure - Estimates of Capital Expenditure for at least 3 years**

- 5.1 The Council is required to publish its estimated capital expenditure for both the General Fund and HRA for at least the next year and two years following it. By modelling various capital programmes, this indicator provides the data for other indicators such as the ratio of financing costs to net revenue stream and the incremental impact on the council tax / housing rents. It should be noted here that the General Fund Capital Programme and the General Fund element of the Housing Investment Programme (affordable housing programme and private sector Improvement Grants ) are to be considered as one.
- 5.2 The table below shows the Councils estimated capital expenditure on the General Fund and Housing Revenue Account ( pre self financing ) for the next four years:-

<b>Year</b>	<b>General Fund</b>	<b>HRA</b>	<b>Overall</b>
2011/12	£3,193,200	£9,217,900	£12,411,100
2012/13	£1,477,000	£6,628,300	£8,105,300
2013/14	£1,427,000	£6,422,800	£7,849,800
2014/15	£1,287,400	£5,227,300	£6,514,700

#### **6.0 Capital Expenditure - Estimates of Capital Financing Requirement**

- 6.1 This is a key measure in that it measures the underlying need for an authority to borrow for capital purposes. However it may not be prudent from a Treasury Management point of view to actually borrow from an external source such as the Public Works Loans Board. This is especially the case when investment rates are lower than long term borrowing rates, in this instance it would be more economic and efficient to utilise the Council's investments instead ( commonly known as internal borrowing ). Either external or internal borrowing creates a cost to the Council in terms of having to pay interest on and provide for repayment of external loans or lost

investment interest. The capital financing requirement provides the starting point for calculating this cost and the results feed into the ratio of financing costs to net revenue stream indicator and also the incremental impact on the council tax / housing rents indicator.

- 6.2 The estimated capital financing requirements ( CFR ) at the end of each of the next three years are as follows and are based on the Council's capital programmes as outlined in paragraph 5.2 above:-

<b>Year</b>	<b>General Fund</b>	<b>HRA</b>	<b>Overall</b>
2011/12	-£1,326,896	-£370,204	-£1,697,100
2012/13	-£1,326,896	-£370,204	-£1,697,100
2013/14	-£1,326,896	-£370,204	-£1,697,100
<b>For Information :-</b>			
2009/10 Actual	-£1,326,896	-£370,204	-£1,697,100
2010/11 Estimate	-£1,326,896	-£370,204	-£1,697,100

- 6.3 It is possible to have a negative capital financing requirement as shown in the table above. In the case of the General Fund essentially this is because the Council still had capital receipts set aside to repay debt at 31<sup>st</sup> March 2004 which it no longer needed as the Council had gone debt free by this date and it has not needed to borrow to fund subsequent capital programmes.

Currently the Council may have to borrow to finance part of its General Fund capital programme but this will be on a short term basis and will be repaid out of capital receipts and is therefore discounted from the CFR calculation which is why the CFR is the same figure for all three years. With regard to the HRA the negativity occurs because a) the starting point for the calculation is the closing Item 8 Credit Ceiling at 31<sup>st</sup> March 2004 which was negative and b) the current and future capital programmes are fully resourced from revenue ( Major Repairs Allowance and Housing Repairs Account ) and capital receipts thus there is no underlying need to borrow for a capital purpose.

- 6.4 Because of variations in the capital programmes there will be a need to monitor this indicator in year to ensure that the in year limit is not breached by slippage from the previous year or expenditure brought forward from the following year. This is unlikely but will be kept under review by Finance.

- 6.5 At some point in 2011/12, the extent of the borrowing likely to be undertaken by the Council as part of the Housing self financing regime will become clear and at that point it will be necessary to amend this indicator to reflect this.

## **7.0 External Debt - Authorised Limit**

- 7.1 The Council is required to set for the forthcoming year and the following two financial years an Authorised Limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. The Authorised Limit equates to the maximum external debt at any one time which the Council is allowed to have outstanding.

7.2 The recommended Authorised Limit is as shown in the table below:-

<b>Year</b>	<b>Authorised Limit for Borrowing</b>	<b>Authorised Limit for Other Long Term Liabilities</b>	<b>Authorised Limit for external debt</b>
2011/12	£9,850,000	£500,000	£10,350,000
2012/13	£9,100,000	£500,000	£9,600,000
2013/14	£9,100,000	£500,000	£9,600,000

7.3 When more details are known about the impact of Housing self financing particularly with regard to the level of debt that this Council will have to take on it will be necessary to review this indicator and also the Operational Boundary detailed in the next paragraph.

## **8.0 External Debt - Operational Boundary**

8.1 The Council is also required to set an operational boundary for external debt. Again this is for three years and gross of investments. The Operational Boundary which is less than the Authorised Limit is effectively the day to day working limit for cash flow purposes. This indicator is sensitive to additional borrowing and to debt restructuring so will need to be set at an appropriate level at the outset of each financial year to cater for any forecast activity in these areas during the coming year. Occasional breach of the Operational Boundary is not seen as a cause for concern ( so long as the Authorised Limit is not breached as well ) but a sustained breach could mean that there are problems with the Councils cash flow therefore there will be a need to monitor this indicator during the year and , if necessary, to take remedial action.

8.2 The recommended Operational Boundaries are as shown in the table below:-

<b>Year</b>	<b>Operational Boundary for Borrowing</b>	<b>Operational Boundary for Other Long Term Liabilities</b>	<b>Operational Boundary for external debt</b>
2011/12	£1,850,000	£0	£1,850,000
2012/13	£1,100,000	£0	£1,100,000
2013/14	£1,100,000	£0	£1,100,000

## **9.0 Treasury Management - Adoption of the CIPFA Treasury Management Code of Practice**

9.1 It is a requirement of the Prudential Code that the Council states that it has adopted the 2009 Revised CIPFA Treasury Management Code of Practice. The Council has adopted the code.