

**PRUDENTIAL INDICATORS FOR 2012/2013 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 ) ( last revised in 2011 ) 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 or Specific Grant.
- 1.3 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 revising them for 2011/12 where appropriate and setting them for 2012/13 and, if required, subsequent financial years. 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.
- 1.5 The advent of the HRA Self Financing regime with effect from 1<sup>st</sup> April 2012 requires the Council to take on around £136m long term borrowing and the Prudential Indicators have been revised to reflect this. This figure is currently an estimate therefore for the purposes of this report it is deemed prudent to work on a figure of £140m to allow for any minor changes when the final figure is confirmed at the end of January. The actual date for the date take-on is 28<sup>th</sup> March 2012 which is within the 2011/12 financial year and this requires certain of the current 2011/12 Prudential Indicators to be revised and approved by the Council so that they are not breached. The affected Prudential Indicators are included below.

**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.

Year	General Fund	Housing Revenue Account	Overall
2012/13	0.00% to -5.00%	29% to 34.00%	16.50% to 22.50%
2013/14	-1.50% to -6.50%	26.50% to 31.50%	15.50% to 20.50%
2014/15	-2.50% to -7.50%	23.50% to 28.50%	13.50% to 18.50%

Year	General Fund	Housing Revenue Account	Overall
<b>For information :-</b>			
2010/11 Actual	-2.23%	16.43%	8.00%
2011/12 Estimate	0.00% to -5.00%	17.50% to 22.50%	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 The significant increase in the HRA ratio is due to the impact of taking on the HRA Self Financing debt and reflects the need to provide for repayment of the debt throughout the life of the Business Plan. This debt repayment provision was not required under the previous Subsidy system but is fully covered within the Business Plan as the Council will retain all its rent income in order to provide for debt servicing costs.
- 2.5 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 overleaf shows the

incremental impact on the Council Tax and Housing Rents of the capital programmes in paragraph 5.2:-

<b>Year</b>	<b>Council Tax</b>	<b>Housing Rent</b>
2012/13	£1.51	£0.00
2013/14	£2.56	£0.00
2014/15	£3.76	£0.00

- 3.2 The impact on the Council Tax is positive due in the main to the revenue effects of various capital projects both past and present e.g. replacing the cremators at the Crematorium and Jubilee House. In addition it includes an estimate of 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. Although the HRA Self Financing debt counts as capital expenditure it is not "new" capital expenditure rather it is a transfer of existing debt between central and local government and is already fully resourced by the current rents being charged, hence its effects are excluded from this indicator.

#### **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 2013/14, 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, based on the debt repayment strategy within the latest HRA Self Financing business plan , it is estimated that net external borrowing at the end of 2013/14 will amount to £133,031,000 and the total additional capital financing requirement for the same period is estimated to be £135,854,000 therefore WDC meets this indicator but this indicator will need to be reviewed early in 2012/13 once the precise debt repayment strategy for the Self Financing debt settlement has been agreed.
- 4.2 As the HRA Self Financing debt will be taken during 2011/12 it is necessary to review the current indicator. In this instance, net external borrowing amounts to £132,204,000 whilst the net movement on the Capital Financing requirement is £140,000,000 therefore WDC still meets 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 for the next four years:-

<b>Year</b>	<b>General Fund</b>	<b>HRA</b>	<b>Overall</b>
2011/12 Revised	£3,508,800	£149,898,300	£153,407,100
2012/13	£5,045,700	£6,674,600	£11,720,300
2013/14	£1,267,000	£6,337,600	£7,604,600
2014/15	£1,127,100	£6,153,800	£7,280,900
2015/16	£403,200	£6,335,400	£6,738,600

- 5.3 The HRA Self Financing debt due to be taken out on the 28<sup>th</sup> March 2012 counts as capital expenditure and therefore the above table includes revised figures for 2011/12.

## **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 ) until borrowing interest rates are such that it then becomes economic to replenish the cash backing the 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 2011/12 and 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 and include both the HRA Self Financing debt settlement itself and the effects of the debt repayment strategy contained within the latest version of the HRA Self Financing Business Plan. Should that debt repayment strategy change in the final version of the Business Plan it will be necessary to revise this indicator early in 2012/13.

<b>Year</b>	<b>General Fund</b>	<b>HRA</b>	<b>Overall</b>
2011/12 Revised	-£1,326,896	£139,629,796	£138,302,900
2012/13	-£1,326,896	£136,893,160	£135,566,264
2013/14	-£1,326,896	£134,156,524	£132,829,628
2014/15	-£1,326,896	£131,419,888	£130,092,992

**For Information :-**

2010/11 Actual	-£1,326,896	-£370,204	-£1,697,100
2011/12 Estimate	-£1,326,896	-£370,204	-£1,697,100

6.3 It is possible to have a General Fund negative capital financing requirement as shown in the table above. 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 nor does the current five year capital programme require any prudential borrowing. With regard to the HRA the 2011/12 revised capital financing requirements reflects the HRA Self Financing debt settlement due on the 28<sup>th</sup> March. The figure is slightly below the £140m referred to in 1.5 above due to the £0.370m negative capital financing requirement at the commencement of 2011/12.

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.

## **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 Revised	£162,940,000	£142,000	£163,082,000
2012/13	£165,940,000	£615,000	£166,555,000
2013/14	£165,940,000	£588,000	£166,528,000
2014/15	£165,940,000	£530,000	£166,470,000

7.3 The limits above take into account the HRA Self Financing debt settlement and as the debt itself will be taken on the 28<sup>th</sup> March 2012 it has been necessary to revise the current 2011/12 Authorised Limit so that it is not breached.

## **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 overleaf:-

<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 Revised	£154,940,000	£142,000	£155,082,000
2012/13	£154,940,000	£115,000	£155,055,000
2013/14	£154,940,000	£88,000	£155,028,000
2014/15	£154,940,000	£59,000	£154,999,000

- 8.3 Again the current 2011/12 boundary has been revised for the HRA Self Financing debt settlement so that it is not breached on the 28<sup>th</sup> March.

## **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.

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