

Prudential Indicators for Capital Expenditure

1 Capital Expenditure – to be revised

1.1 This indicator requires reasonable estimates of the total of capital expenditure to be incurred during the forthcoming and following two financial years. It is in the nature of capital expenditure to have variations to the programme as the year proceeds, for example as new grant or other third party funding becomes available, or to accommodate slippage from the previous year. This is acknowledged in the Prudential Code.

1.2 The capital expenditure estimates for 2006-07 to 2008-09 agreed by Council on 28 February 2006 are shown below.

Capital Expenditure forecasts at 28 Feb 2006			
	2006-07 Estimate £000	2007-08 Estimate £000	2008-09 Estimate £000
General Fund	66,829	65,806	48,948
HRA	12,599	12,404	12,329
Total	79,428	78,210	61,277

1.3 The latest prudential indicators for capital expenditure for 2006-07 to 2008-09, based on the position as at 31 July 2006, and requiring Council approval, are presented below.

Capital Expenditure at 31 July 2006			
	2006-07 Latest Estimate £000	2007-08 Latest Estimate £000	2008-09 Latest Estimate £000
General Fund	91,259	92,362	56,173
HRA	12,921	12,404	12,329
Total	104,180	104,766	68,502

- 1.4 The estimates are consistent with the latest agreed programme for 2006-07 and forecasts for 2007-08 and 2008-09 as outlined in the Capital Programme Monitoring 2006-07 to 31 July 2006, which is reported to Cabinet on this same agenda.
- 1.5 Cabinet are asked to recommend to Council that they approve the revised Capital Expenditure indicators shown in the table at 1.3 above.

2 Capital Financing Requirement – to be revised

- 2.1 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.
- 2.2 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.
- 2.3 The CFR takes as its starting point the balance sheet figures at the close of the year preceding the first year. Because they have to be agreed before the start of the financial year, the prudential indicators set for 2006-07 were based on an estimated 2005-06 outturn balance sheet
- 2.4 The CFR forecasts approved by Council on 28 February 2006 are shown below.

Capital Financing Requirement forecasts at 28 Feb 2006				
	31 March 2006 Estimate	31 March 2007 Estimate	31 March 2008 Estimate	31 March 2009 Estimate
	£000	£000	£000	£000
Non-HRA	139,895	176,369	211,753	251,198
HRA	76,400	77,329	78,078	78,826
Total	216,295	253,698	289,831	330,024

- 2.5 The Prudential Indicators for Capital Finance 2005-06 Outturn Report was taken to Cabinet on 5 September 2006. This updated the 2005-06 closing CFR to reflect the 2005-06 pre-audit closing balance sheet position. As the closing CFR for 2005-06 becomes the opening figure for 2006-07 there is a corresponding impact on 2006-07 and future years. These impacts are reflected in the revised CFR estimates presented in the following table.

Capital Financing Requirement forecasts at 31 July 2006				
	31 March 2006 Outturn	31 March 2007 Latest Estimate	31 March 2008 Latest Estimate	31 March 2009 Latest Estimate
	£000	£000	£000	£000
Non-HRA	134,120	176,601	212,138	251,683
HRA	76,520	77,449	78,198	78,946
Total	210,640	254,050	290,336	330,629

- 2.6 The draft outturn for the closing CFR is £5.65m less than the estimate reported to Council on 28 February 2006. In-year financing of the overall capital programme from borrowing amounted to £37.65m against an estimate of £43.29m. The reduction is due to slippage in the General Fund capital programme, and in particular in the Education programme.
- 2.7 The closing 2005-06 CFR figure is subject to audit.
- 2.8 Cabinet are asked to recommend to Council that they approve the revised Capital Financing Requirement estimates shown in the table at 2.5 above.

Prudential Indicators of Affordability

3 Ratio of financing costs to net revenue stream – no change

- 3.1 The indicator has been calculated as estimated debt interest costs for the year divided by the net budget requirement for the General Fund and total HRA income for the HRA. The objective is to enable trends to be identified.
- 3.2 The Code requires separate indicators for the HRA and General Fund element.

Ratio of financing costs to net revenue stream				
	2005-06 Actual %	2006-07 Estimate %	2007-08 Estimate %	2008-09 Estimate %
General Fund	4.95	5.92	6.76	7.43
HRA	24.22	24.64	24.95	24.77

- 3.3 Since no material changes have been made to the estimated financing costs or the net revenue stream since the budget was set by Council on 28 February 2006, there is no requirement to revise this indicator.

4 Incremental impact of new capital investment decisions on the Council Tax – no change

4.1 This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D).

4.2 Since the level of planned borrowing is in line with government allocations for supported borrowing the majority of the cost is met by revenue support grant. The indicators below represent only that proportion that it is estimated will be met from Council Tax.

Incremental impact of new capital investment decisions on the Council Tax		
General Fund Budget		
2006-07	2007-08	2008-09
£ p	£ p	£ p
1.57	2.83	4.30

4.3 Since no additional borrowing to that that agreed by Council at the start of the year is planned, there is no requirement to revise this indicator.

5 Incremental impact of new capital investment decisions on average weekly housing rent – no change

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

5.2 In calculating this indicator it was assumed that the Major Repairs Allowance will be spent in full for the next three years, and therefore does not impact the indicator, and it is HRA capital expenditure funded other than from the Major Repairs Reserve that is relevant.

5.3 As the amount of borrowing assumed was within the government allocations for supported borrowing, which is funded through housing subsidy, there was a nil impact on housing rents.

Incremental impact of new capital investment decisions on average weekly housing rent		
Housing Revenue Account		
2006-07	2007-08	2008-09
£ p	£ p	£ p
0.00	0.00	0.00

5.4 Since the circumstances outlined above remain unchanged, there is no requirement to revise this indicator.

External Debt Prudential Indicators

6 Authorised limit for external debt - no change

- 6.1 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.
- 6.2 The indicator set for the forthcoming financial year and the following two financial years is 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.
- 6.3 This 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 to be consistent with plans for capital expenditure and financing. It 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. Risk analysis and risk management strategies are taken into account, as are plans for capital expenditure, estimates of capital financing requirement and estimates of cash flow requirements for all purposes.
- 6.4 The Council’s actual external debt is monitored against the authorised limit on a daily basis. The table below shows the authorised limits as set by Council on 28 February 2006, together with monitoring information for 2005-06 and for 2006-07 to date, demonstrating that external debt has not exceeded the authorised limit.

Authorised limit for external debt						
	2005-06		2006-07		2007-08	2008-09
	Limit	Actual Maximum	Limit	Actual Maximum to 31 July 06	Limit	Limit
	£000	£000	£000	£000	£000	£000
Borrowing	286,500	266,204	323,250	266,204	369,250	422,250
Other long term liabilities	500	365	750	365	750	750
Total	287,000	266,569	324,000	266,569	370,000	423,000

7 Operational Boundary for total external debt - no change

- 7.1 The operational boundary is based on the same estimates as the authorised limit, but excludes the additional headroom included within the authorised limit to allow for unusual cash movements. It equates to the maximum of projected external debt.
- 7.2 The operational boundary represents a key management tool for in year monitoring by the Chief Officer Finance and Corporate Services. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.
- 7.3 The Council's actual external debt is monitored against the operational boundary on a daily basis. The table below shows the operational boundaries as set by Council on 28 February 2006, together with monitoring information for 2005-06 and for 2006-07 to date, demonstrating that external debt has not exceeded the operational boundary.

Operational boundary for external debt						
	2005-06		2006-07		2007-08	2008-09
	Limit	Actual Maximum	Limit	Actual Maximum to 31 July 06	Limit	Limit
	£000	£000	£000	£000	£000	£000
Borrowing	276,500	266,204	303,250	266,204	349,250	402,250
Other long term liabilities	500	365	750	365	750	750
Total	277,000	266,569	304,000	266,569	350,000	403,000

Prudential Indicator of Prudence

8 Net borrowing and capital financing requirement – no change

- 8.1 This is the key indicator of prudence. It is intended to show that external borrowing does not exceed the total capital financing requirement (CFR) in the preceding year plus the estimates of any additional capital requirement for the current and next two years.

Net borrowing and capital financing requirement			
Estimated Net Borrowing		Adjusted Capital Financing Requirement	
2006-07 Estimate	2006-07 Maximum (to 31 July 2006)	2006-07 Original Estimate	2006-07 Latest Estimate
£000	£000	£000	£000
234,265	167,754	330,024	330,629

Treasury Management Prudential Indicators

9 Adoption of CIPFA code of Practice on Treasury Management – no change

9.1 Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services is a requirement of the Prudential Code. The Council formally adopted this at its meeting on 12th March 2002. Treasury Management Practices' schedules (TMPs), setting out detailed procedures, have been established by the Head of Finance and are regularly reviewed.

10 Upper limits on variable interest rate exposure – no change

10.1 This indicator sets the upper limits to which the Council is exposed to the effects of changes in variable interest rates.

10.2 It refers to the Council's variable rate interest risk and relates to borrowing that is at variable rates, less investments that are variable rate investments and is expressed as a principal sum.

10.3 This limit has been calculated on the basis that a reasonable limit will equate to approximately 25% of total borrowing. In practice it would be unusual for the exposure to exceed 15%. The actual exposure can be negative if all borrowing is fixed long term (more than 1 year), and there is a variable or short term lending. Limits for years 2 & 3 assume no substantial change in market conditions.

10.4 The Council's variable interest rate exposure is monitored against the upper limit on a weekly basis. The table below shows the upper limits on variable interest rate exposures as set by Council on 28 February 2006, together with monitoring information for 2006-07 to date, demonstrating that the limits have not been exceeded.

Upper limits on variable interest rate exposure			
2006-07	2006-07 Actual to 31 July 06	2007-08	2008-09
Limit	Maximum in period	Limit	Limit
£000	£000	£000	£000
86,000	2,080	98,000	109,000

11 Upper limits on fixed interest rate exposure – no change

11.1 This indicator sets the upper limits to which the Council is exposed to the effects of changes in fixed interest rates.

11.2 It refers to the Council's exposure to fixed rate risk and relates to borrowing that is at fixed rates, less investments that are fixed rate investments. The indicator is expressed as a principal sum.

11.3 In principle, it may be necessary or desirable for all borrowing at a point in time to be at a fixed rate.

11.4 The Council's fixed interest rate exposure is monitored against the upper limit on a weekly basis. The table below shows the upper limits on fixed interest rate exposures as set by Council on 28 February 2006, together with monitoring information for 2006-07 to date.

Upper limits on fixed interest rate exposure			
2006-07	2006-07 Actual to 31 July 06	2007-08	2008-09
Limit	Maximum in period	Limit	Limit
£000	£000	£000	£000
318,000	180,229	364,000	407,000

12 Prudential limits for the maturity structure of borrowing – no change

12.1 This indicator sets both upper and lower limits for 2006-07 with respect to the maturity structure of the Council's borrowing.

12.2 This represents the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate at the start of the period where the periods in question are:

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and above

12.3 The Council's limits for the maturity structure of borrowing are taken into account whenever any new borrowing or loan rescheduling is undertaken. The table below shows the limits on the maturity structure of borrowing as set by Council on 28 February 2006, together with monitoring information for 2006-07 to date, demonstrating that the limits have not been exceeded.

Maturity structure of borrowing				
Period	Lower Limit	Limit Exceeded Yes/No	Upper Limit	Limit Exceeded Yes/No
	%		%	
>12 months	0.00	No	15.00	No
1-2 years	0.00	No	15.00	No
2-5 years	0.00	No	30.00	No
5-10 years	0.00	No	30.00	No
< 10 years	60.00	No	100.00	No

13 Principal sums invested for periods longer than 364 days – no change

13.1 Prior to 1st April 2004, indebted Councils were unable to invest for periods exceeding 364 days, but under the Local Government Act 2003 and ODPM Guidance on Local Authority Investments, all Councils are now permitted to invest for longer periods. The authority is required to set an upper limit for the maturing of such investments.

13.2 The limit set by Council allows for monies not anticipated to be spent in year to be invested for longer periods if interest rates are favourable. The limits set on 28 February 2006 are shown below:

Upper limit on investments for periods longer than 364 days			
2006-07 Limit	2006-07 Actual to 31 July 06	2007-08 Limit	2008-09 Limit
£m	£m	£m	£m
10	0	10	10

13.3 The Council's prudential limits for principal sums invested for longer than 364 days are taken into account whenever any new investments are undertaken. No investments over 364 days have been undertaken during the period.