

## **APPENDIX 1**

### **PRUDENTIAL INDICATORS 2015/16**

#### **1.0 The Prudential Code**

Part 1 of the Local Government Act 2003 and C.I.P.F.A.'s Prudential Code for Capital Finance in Local Authorities (the Code) set out a framework for self-regulation of capital spending, in effect allowing council's to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. This allows the Council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

The revenue costs of capital investment can be supported through the Revenue Support Grant (RSG) mechanism up to a certain level, known as Supported Capital Borrowing. However, for the last five financial years (2010/11 to 2014/15) this support was not provided. Again in 2015/16, the support has not been forthcoming and is not likely to be available for future years.

To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a number of Prudential Indicators.

For housing authorities these are separated for the Housing Revenue Account and non-Housing Revenue Account capital investment.

These indicators are mandatory, but can be supplemented with local indicators if this assists interpretation. The indicators cover affordability, prudence, capital expenditure, external debt and treasury management and form the basis of in year monitoring and reporting.

The indicators are purely for internal use by the Council and are not to be used as comparators between authorities, as any comparisons will be meaningless. In addition, the indicators should not be taken individually; rather the benefit from monitoring will arise from following the movement in indicators over time and the year on year changes.

#### **2.0 Capital Expenditure and the Capital Financing Requirement**

The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for a capital purpose; the change year on year will be influenced by the capital expenditure in the year. In simple terms the CFR will increase by the amount of capital expenditure to be financed by borrowing less any amount set aside in the year to repay debt.

The expected movement in the CFR over the next three years is dependent on the level of supported and unsupported capital expenditure decisions taken during the budgeting cycle. There are two main limiting factors on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Can the Council afford the implications of the unsupported capital expenditure?
- The Government may use a long stop control to ensure that either the total of all local authorities' plans do not jeopardise national economic policies, or in the event of an assessment by central government that local plans are not affordable at a particular council, it may implement a specific control to limit its capital expenditure plans.

The Council's expectations for capital expenditure and Capital Financing Requirement (CFR) in the next three years are shown in the following tables. These form two of the required Prudential Indicators.

## 2.1 Breakdown of Capital Expenditure by Service

The table below takes into account the Council's estimates of available resources as set out in the Medium Term Financial Strategy and the HRA Business Plan as adjusted for any major changes during the budget setting process.

	2013/14 Actual £ 000s	2014/15 Estimate £ 000s	2015/16 Estimate £ 000s	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s
General Fund	1,150	6,073	7,000	432	432
HRA	646	3,856	3,830	2,569	1,242
<b>Total</b>	<b>1,796</b>	<b>9,929</b>	<b>10,830</b>	<b>3,001</b>	<b>1,674</b>

## 2.2 Capital Financing Requirement

The actual and estimated CFRs are set out below together with a split between supported and unsupported spending.

	2013/14 Actual £ 000s	2014/15 Estimate £ 000s	2015/16 Estimate £ 000s	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s
<b>Capital Expenditure *</b>					
Supported Spend	1,664	5,057	4,111	2,113	0
Unsupported Spend	132	4,872	6,719	888	289
<b>Total Spend</b>	<b>1,796</b>	<b>9,929</b>	<b>10,830</b>	<b>3,001</b>	<b>289</b>
<b>Financed By:</b>					
Borrowing	132	4,872	6,719	888	289
Capital Receipts	37	211	19	0	0
Capital Grants	203	154	143	143	143
Earmarked Funds	505	1,460	676	0	0
Major Repairs Reserve	638	2,169	1,185	1,214	1,242
Revenue	8	931	1,871	756	0
Other Contributions	273	132	217	0	0
<b>Total Financing</b>	<b>1,796</b>	<b>9,929</b>	<b>10,830</b>	<b>3,001</b>	<b>1,674</b>
<b>Capital Financing Requirement</b>					
CFR - General Fund	4,112	4,450	14,110	13,965	13,805
CFR - HRA	18,006	18,602	19,076	19,675	19,675
<b>Total CFR</b>	<b>22,118</b>	<b>23,052</b>	<b>33,186</b>	<b>33,640</b>	<b>33,480</b>

\*These figures represent an affordable capital programme rather than the total of capital submissions put forward by budget holders.

## 2.3 External Debt

The following estimate of gross external debt is provided for information.

	2013/14 Actual £ 000s	2014/15 Estimate £ 000s	2015/16 Estimate £ 000s	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s
Borrowing	19,114	19,114	24,114	25,114	26,114
Other Long term Liabilities	0	0	0	0	0
<b>Total Debt at 31st March</b>	<b>19,114</b>	<b>19,114</b>	<b>24,114</b>	<b>25,114</b>	<b>26,114</b>

### **3.0 Affordability Prudential Indicators**

The indicators that follow provide an indication of the impact of the capital investment plans on the overall Council finances.

#### **3.1 Ratio of Financing Costs to Net Revenue Stream**

The actual and estimates of the ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
General Fund	3.2	3.2	5.0	9.6	9.9
HRA	11.0	10.5	10.4	10.3	10.0

#### **3.2 Incremental Impact of Capital Investment Decisions on the Band D Council Tax**

The estimates of the incremental impact of capital investment decisions on the Council Tax indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in the budget report compared to the Council's existing commitments and current plans. The figures are based on the assumptions included in the budget.

	Budget 2015/16 £	Forward Projection 2016/17 £	Forward Projection 2017/18 £
2015/16 Programme	11.67	11.67	11.67
2016/17 Programme	0	0.54	0.54
2017/18 Programme	0	0	0.54
<b>Total</b>	<b>11.67</b>	<b>12.21</b>	<b>12.75</b>

#### **3.3 Incremental Impact of Capital Investment Decisions on Housing Rent Levels**

The estimates of the incremental impact of capital investment decisions on housing rent levels are similar to the Council Tax calculation. This indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the budget report compared to the Council's existing commitments and current plans, expressed as a change in weekly rent levels.

	Budget 2015/16 £	Forward Projection 2016/17 £	Forward Projection 2017/18 £
2015/16 Programme	0.15	0.15	0.15
2016/17 Programme	0	0.19	0.19
2017/18 Programme	0	0	0.00
<b>Total</b>	<b>0.15</b>	<b>0.34</b>	<b>0.34</b>

### 3.4 Prudential Indicators and Limits on Activity

A key control over the Council's activity is to ensure that over the medium term net debt will only be for a capital purpose. The Council needs to ensure that net debt does not, except in the short-term, exceed the total of the Capital Financing Requirement (CFR). The following table sets out the estimated net borrowing position in relation to the estimated CFR.

	2014/15 Estimate £ 000s	2015/16 Estimate £ 000s	2016/17 Estimate £ 000s	2017/18 Estimate £ 000s
Borrowing	19,114	24,114	25,114	26,114
Investments	0	0	0	0
<b>Net Debt</b>	<b>19,114</b>	<b>24,114</b>	<b>25,114</b>	<b>26,114</b>
<b>CFR</b>	<b>23,052</b>	<b>33,186</b>	<b>33,640</b>	<b>33,480</b>

The Section 151 Officer reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2012/13 and no difficulties are foreseen for the current year or in respect of net debt for future years. This opinion takes account of current commitments, existing plans and the proposals in this and the budget report.

Under the self-financing settlement for the Housing Revenue Account (HRA), the Department for Communities and Local Government has imposed a cap on indebtedness for the HRA of £21,898k. For 2014/15 the HRA CFR stands at £18,602k and for future years is predicted rise to £19,675k.

### 3.5 Treasury Management Prudential Indicators

These indicators are shown in detail at Appendix 2.