Service & Resource Planning 2012/13 - 2016/17
Prudential Indicators for Capital

Introduction

1. This paper sets out the capital Prudential Indicators that it is recommended that the Council should adopt as part of its budget setting in February 2012. The Council also has to set further indicators in relation to Treasury Management and these are included for approval in the Treasury Management Strategy at Annex 8. The indicators have been developed by CIPFA[1].

2. Having simplified the capital finance system and given authorities more freedom in determining their capital programmes, there is a system of self regulation introduced through the Prudential Guidelines. The recommended indicators are set out below:

3. In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

    - Affordability, e.g. implications for Council Tax
    - Prudence and sustainability, e.g. implications for external borrowing
    - Value for money, e.g. option appraisal
    - Stewardship of assets, e.g. asset management planning
    - Service objectives, e.g. strategic planning for the authority
    - Practicality, e.g. achievability of the forward plan

Capital Expenditure

4. The Council is required to make reasonable estimates of the total of capital expenditure that it plans to incur during 2012/13 and the following two financial years. The Council must also approve the actual expenditure for 2010/11 and revised expenditure for 2011/12.

5. It is proposed that the capital expenditure will be £55.6m for 2012/13, £121.3m for 2013/14 and £89.2m for 2014/15. Actual expenditure for 2010/11 was £99.5m and estimated expenditure for 2011/12 is £72.1m. This programme will be funded as follows:

[1] Chartered Institute of Public Finance & Accountancy

	Actual 2010/11	Estimates 2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
SCE(R) Supported Borrowing	26.1	0.0	0.0	0.0	0.0
Prudential Borrowing	4.0	2.1	2.3	17.2	7.2
Grants and Contributions	61.9	65.6	52.6	75.2	72.0
Capital Receipts	0.0	0.0	0.0	19.8	0.1
Revenue	7.5	4.4	0.7	1.3	0.3
Reserves	0.0	0.0	0.0	7.8	9.6
	99.5	**72.1**	**55.6**	**121.3**	**89.2**

6. The indicators have been based on the February 2012 capital programme set out in Annex 12.

7. The capital expenditure figures for beyond 2012/13 will be able to be revised in twelve months' time.

The Ratio of Financing Costs to the Net Revenue Stream

8. Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2010/11 are shown below.

Year	Actual/ Estimate	Financing Cost	Net Revenue Stream	Ratio
2010/11	Actual	38,721	504,440	7.68%
2011/12	Estimate	35,602	457,135	7.79%
2012/13	Estimate	32,278	456,820	7.07%
2013/14	Estimate	30,941	454,127	6.81%
2014/15	Estimate	30,313	457,566	6.62%

9. Financing costs include interest payable on borrowing, interest and investment income and the amount required for the minimum revenue provision. The estimates of financing costs are set out in the Medium Term Financial Plan (MTFP) at Annex 1.

10. The net revenue stream is the amount to be met from government grants and local taxpayers, the estimates for which are also set out in the MTFP.

The Capital Financing Requirement

11. Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2010 that are recommended for approval are:

Year	Actual/Estimate	£m
2010/11	Actual	466.604
2011/12	Estimate	450.209
2012/13	Estimate	434.625
2013/14	Estimate	434.986
2014/15	Estimate	425.631

12. The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice the County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

13. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

> "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

14. The Assistant Chief Executive & Chief Finance Officer reports that the authority had no difficulty meeting this requirement in 2010/11, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

The Incremental Impact of Capital Investment Decisions

15. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are, for the Band D Council Tax:

Year	Actual/Estimate	£
2012/13	Estimate	1.79
2013/14	Estimate	6.21
2014/15	Estimate	11.55