

Service & Resource Planning 2010/11 - 2014/15 **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 2010. 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 CIPFA¹.
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 2010/11 and the following two financial years. The Council must also approve the actual expenditure for 2008/09 and revised expenditure for 2009/10.
5. It is proposed that the capital expenditure will be £130.2m for 2010/11, £100.3m for 2011/12 and £84.2m for 2012/13. Actual expenditure for 2008/09 was £101.1m and estimated expenditure for 2009/10 is £104.2m. This programme will be funded as follows:

¹ Chartered Institute of Public Finance & Accountancy

| | Actual 2008/09 | Estimates | | | |
|----------------------------|---------------------------|------------------|----------------|----------------|----------------|
| | | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | £m | £m | £m | £m | £m |
| SCE(R) Supported Borrowing | 27.3 | 29.7 | 26.0 | 30.0 | 31.9 |
| Prudential Borrowing | 5.6 | 9.8 | 16.6 | 16.4 | 4.5 |
| Grants and Contributions | 33.4 | 54.5 | 86.7 | 32.1 | 40.8 |
| Capital Receipts | 24.7 | 8.9 | 0.0 | 15.7 | 3.4 |
| Revenue | 10.1 | 1.3 | 0.9 | 0.0 | 0.0 |
| Reserves | 0.0 | 0.0 | 0.0 | 6.1 | 3.6 |
| | 101.1 | 104.2 | 130.2 | 100.3 | 84.2 |

6. The indicators have been based on the February 2010 capital programme set out in Annex 12.
7. The capital expenditure figures for beyond 2010/11 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 2008/09 are shown below.

| Year | Actual/ Estimate | Financing Cost | Net Revenue Stream | Ratio |
|-------------|-----------------------------|---------------------------|-------------------------------|--------------|
| 2008/09 | Actual | 26,995 | 393,528 | 6.86% |
| 2009/10 | Estimate | 34,864 | 406,121 | 8.58% |
| 2010/11 | Estimate | 36,333 | 433,045 | 8.39% |
| 2011/12 | Estimate | 35,449 | 432,574 | 8.19% |
| 2012/13 | Estimate | 36,794 | 442,055 | 8.32% |

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 2009 that are recommended for approval are:

| Year | Actual/Estimate | £m |
|---------|-----------------|---------|
| 2008/09 | Actual | 408.912 |
| 2009/10 | Estimate | 432.080 |
| 2010/11 | Estimate | 483.990 |
| 2011/12 | Estimate | 500.064 |
| 2012/13 | Estimate | 516.434 |

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 2008/09, 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 | £ |
|---------|-----------------|-------|
| 2010/11 | Estimate | 29.01 |
| 2011/12 | Estimate | 28.15 |
| 2012/13 | Estimate | 28.26 |

16. From the introduction of the Prudential Indicators in 2004/05 up to the end of 2005/06 these figures reflect the costs of unsupported borrowing for capital investment through the Public Service Agreement and Prudential Borrowing. For 2006/07 onwards the figures reflect the increase in the Council's debt charges arising from supported borrowing and prudential borrowing. Although supported borrowing costs are reflected in the grant support from government, as the Council is on the grant floor, the increased costs of borrowing do not increase the amount of grant receivable. The increased costs of borrowing therefore fall on the Council Tax.