Prudential indicators

Capital expenditure

B.2.1. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

B.2.2. Table B2.1 sets out actual and estimated capital expenditure and its funding for 2011/12 to 2017/18. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

Table B2.1: Actual and estimated capital expenditure 2011/12 - 2017/18

	2011/12 Actual £m	2012/13 Projected £m	2013/14 ← - - - - - £m	2014/15 - - - - - £m	2015/16 Estimated £m	2016/17 - - - - - £m	2017/18 - - - - - → £m
Capital expenditure	124	141	188	172	142	120	73
Financed by:							
Government grants	81	96	69	77	71	72	55
Capital receipts	15	10	14	26	5	5	0
Revenue, reserves and third party contributions	14	5	3	8	14	15	18
Net financing need for the year*	**14**	**30**	**102**	**61**	**52**	**28**	**0**

*Capital expenditure to be met by borrowing

The Council's borrowing need (the capital financing requirement)

B.2.3.The capital financing requirement (CFR) represents capital expenditure financed by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from the locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP). The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's borrowing requirement.

B.2.4.Table B2.2 sets out the Council's capital financing requirement (CFR). The capital financing requirement (CFR) represents capital expenditure financed by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from the locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP). The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's borrowing requirement.

Table B2.2: Capital financing requirement (CFR) 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 ← £m**	**2014/15 - - - £m**	**2015/16 Estimated £m**	**2016/17 - - - £m**	**2017/18 → £m**
Opening CFR	538	541	555	644	688	721	730
Add new borrowing:							
MRP and other financing movements*	-11	-15	-13	-17	-19	-19	-17
Net Financing Need**	14	29	102	61	52	28	0
Closing CFR	541	555	644	688	721	730	713
Total CFR movement	3	14	89	44	33	9	-17

*Other financing movements include the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

B.2.5. Gross borrowing refers to an authority's total external borrowing requirement. CIPFA has issued an amendment to the Prudential Code 2011 to replace the net debt indicator (which offset investments) with a gross debt indicator. CIPFA requires this amendment to be implemented from 2013/14. The reason for this change is to highlight instances of local authorities borrowing ahead of requirement.

B.2.6. Table B2.3 sets out the Council's and net gross debt. Gross borrowing refers to an authority's total external borrowing requirement. CIPFA has issued an amendment to the Prudential Code 2011 to replace the net debt indicator (which offset investments) with a gross debt indicator. CIPFA requires this amendment to be implemented from 2013/14. The reason for this change is to highlight instances of local authorities borrowing ahead of requirement.

Table B2.3: Gross borrowing requirement 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 ← - - - £m**	**2014/15 £m**	**2015/16 Estimated £m**	**2016/17 £m**	**2017/18 - - - → £m**
Gross borrowing	315	319	327	362	385	383	353
Investments	-229	-200	-130	-130	-130	-130	-130
Net borrowing	86	119	197	232	255	253	223
CFR	**541**	**555**	**644**	**688**	**721**	**730**	**713**

The Council's operational boundary

B.2.7. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

B.2.8. Table B2.4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Table B2.4: Operational boundary 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 ← - - - - - - - - - - Estimated - - - - - - - - - - → £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	510	523	530	567	586	584	554
Other long term liabilities	57	69	82	92	88	84	79
Total	**567**	**592**	**612**	**659**	**674**	**668**	**633**
Actual external debt	86	119	197	232	255	253	223

The Council's authorised limit

B.2.9. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

B.2.10. Table B2.5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limits is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

Table B2.5: Authorised limit for external debt 2012/13 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 ← - - - £m**	**2014/15 - - - £m**	**2015/16 Estimated £m**	**2016/17 - - - £m**	**2017/18 - - - → £m**
Borrowing	567	582	594	634	657	657	625
Other long term liabilities	57	69	82	92	88	84	79
Total	**624**	**651**	**676**	**726**	**745**	**741**	**704**
Actual external debt	86	119	197	232	255	253	223

Ratio of financing costs to net revenue stream

B.2.11. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme. A prudent level not to exceed would be 6%.

B.2.12. Table B2.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme. A prudent level not to exceed would be 6%.

Table B2.6: Ratio of financing costs to net revenue stream

	2012/13 Projected	2013/14	2014/15	2015/16	2016/17	2017/18
		← - - - - - - - - - -	Estimated	- - - - - - - - - - →		
Ratio of financing costs to net revenue stream	4.85%	5.01%	5.25%	5.33%	5.48%	4.87%

Incremental impact of capital investment decisions on Council Tax 2013/14 to 2017/18

B.2.13. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for future years.

B.2.14. Table B2.7 sets out the incremental impact of capital investment decisions on Council Tax. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for future years.

Table B2.7: Estimated incremental impact of capital investment decisions on council tax 2013/14 to 2017/18

	2013/14	2014/15	2015/16	2016/17	2017/18
Band D Council Tax	£4.03	£13.65	£17.77	£20.66	£22.94