

Prudential Indicators for East Devon District Council

1.0 Introduction

1.1 As part of the Prudential Code for Capital Finance in Local Authorities, the Council is required to attach the following Prudential Indicators to the annual budget setting report. These indicators help show the overall effect of various financing and borrowing strategies that the Council plans to adopt over the next three financial years.

1.2 The Prudential Code and the indicators that each Council are set, support the system of capital investment in the authority. They are set with regard to:

- Service objectives – strategic planning for the authority
- Stewardship of assets – asset management planning
- Value for money – option appraisal
- Prudence and sustainability – external borrowing implications
- Affordability – implications for council tax and housing rents
- Practicality – achievability of the forward plan

These indicators will also act as an early warning mechanism to flag up if the Council decides to set capital programmes without the necessary finances to fund them.

1.3 Tables 1 to 8, shown below, detail all the Prudential Indicators that are required to be attached to this budget report.

2.0 Affordability Indicators

2.1 Estimated and actual ratio of financing costs to net revenue stream

Table 1 shows how this indicator is calculated. A positive figure indicates external debt.

Table 1: Basis of calculation for ratio of financing costs to net revenue stream			
General Fund:			
Financing costs (Interest charged on loans Less Interest earned on investments)	÷	Budget requirement (Revenue Support Grant + Council Tax)	= The ratio of financing costs to net revenue stream (General Fund) as a %
Housing Revenue Account:			
Financing costs (Interest charged on loans Less Interest earned on investments)	÷	Budget requirement (Council house tenants income + Government subsidy received)	= The ratio of financing costs to net revenue stream (General Fund) as a %

Table 2 shows both the actual ratio of financing costs to net revenue stream for 2008/09 and the estimates for 2009/10 to 2012/13.

The General Fund ratio of financing has declined significantly in 2009/10 due to the reduction in interest rates.

	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Estimated as at 21/12/09			
	%	%	%	%	%
General Fund	(10.05)	(2.72)	(2.40)	(2.00)	(1.99)
HRA	(0.89)	(0.37)	0.10	0.12	0.12

2.2 Estimates of incremental impact of new capital investment decisions on Council Tax and average Weekly Housing Rents

Table 3 shows the incremental impact of capital investment decisions proposed in this budget report, over and above the capital decisions that have previously been taken by the Council. Only the financing costs associated with capital loans are included. The indicator takes into account the Council Tax base of 56,771 and housing stock of 4,289 for 2009/10.

- 2.3 The Council's decision to finance the purchase of rigid bin containers for the new refuse and recycling contract in 2010/11 financed by a Public Works Loan Board (PWLB) loan over 10 year, is shown for the General Fund.

The debt repayment of £111,660 in 2010/11 was included in the 2010/11 Draft Estimates report to Exec on 6/1/2010 as a separate agenda item. The increase to £112,820 in 2011/12 has been calculated, due to the increase in interest rates since these draft budget estimates were prepared

Debt repayments are fixed for the life of the loan and include both repayment of principal and interest.

The financing effect of the loan is to increase the Council's band D tax level by £1.96 in 2010/11. If no new loans are taken out, the figure reduces slightly as the council tax base increases in the remaining 8 years of the loan.

- 2.4 Capital investment in 17 new social housing units of £1.2m in 2010/11 financed by a PWLB loan over 25yrs, will affect the Housing Revenue Account. The debt repayment of £79,868 in 2010/11 is now included in the Draft Estimates 2010/11. The effect on Council house tenants will be an additional £0.36 on the average weekly rent over the 25 year life of the loan.

	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Per 10/11 Estimates			
Band D Annual Council Tax	N/a	N/a	1.96	1.97	1.96
Average Weekly Housing Rent	N/a	N/a	0.36	0.36	0.36

3.0 Prudence

3.1 Net borrowing

Table 4 shows the net position at each year end of amounts borrowed and investments held. Year end borrowing includes the short term bank overdraft and long terms loans from PWLB.

The 2008/09 Statement of Accounts showed a £10m year end overdraft. From 2009/10 onwards, the 2010/11 Draft Estimates are used, based on known phasing and estimated interest rates. Investments have reduced in 2009/10 due to £6m being recalled to fund capital and revenue cash flows.

Table 4: Net External Borrowing			
	Total Borrowed at Year End	Total Invested at Year End	Net Borrowing
	£000's	£000's	£000's
2008/09	10,000	(32,511)	(22,511)
2009/10	9,000	(26,836)	(17,836)
2010/11	11,195	(27,234)	(16,039)
2011/12	11,235	(27,574)	(16,339)
2012/13	11,278	(27,919)	(16,641)

3.2 Capital Financing Requirement

The Council's Capital Programme is funded from various sources:

- Use of capital receipts (sale proceeds from property)
- Contributions from revenue budgets
- Capital grants e.g. Environment Agency Grants, Disabled Facility Grant
- Contributions from other parties e.g. DCC, the Arts Council

This inevitably leaves an unfunded balance which can be met from reserves or borrowing. The Capital Reserve at Year End 2008/09 stood at £6.784m and will be used over 2009/10 and 2010/11.

The Capital Financing requirement therefore represents the Council's underlying need to borrow for capital purposes. No borrowing is required until 2010/11.

Table 5 overleaf shows both the actual capital financing requirement for 2008/09 and the estimates for 2009/10 to 2012/13. A loan of £.959m from the PWLB will be taken out over 10 years to finance the provision of waste bins for the next phase of the refuse and recycling contract.

A loan of £1.2m from the PWLB will be taken out over 25 years to finance the provision of 17 new social housing units.

Table 5: Capital Financing Requirement (Actual and Estimated)					
	2008/09	2009/10	2010/11	2011/12	2012/13
	Actual	Per 2010/11 Estimates			
	£000's	£000's	£000's	£000's	£000's
GF	Nil	Nil	959	Nil	Nil
HRA	Nil	Nil	1,200	Nil	Nil
Totals	Nil	Nil	2,159	Nil	Nil

3.3 Adoption of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectional Guidance Notes

It has been recommended that the Council adopt the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectional Guidance Notes.

4.0 Capital Expenditure to be incurred

Table 6 shows both actual capital expenditure incurred in 2008/09 and estimates for the years 2009/10 to 2012/13.

These figures show the Council's capital programme net of any grants or contributions received from third parties e.g. Environment Agency, Arts Council.

Capital expenditure also includes the major repairs capital expenditure (MRA) which for accounting purposes is shown within the HRA.

Table 6: Capital Expenditure to be incurred (Actual and Estimated) for 2008/09 to 2012/13					
	2008/09 £000's	2009/10 £000's	2010/11 £000's	2011/12 £000's	2012/13 £000's
	Actual	Per 2010/11 Estimates			
GF	984	3,591	4,528	1,465	440
HRA	3,575	4,017	4,377	3,41	3,485
Sub-total	1,867	4,838	6,223	2,160	1,135
MRA	2,692	2,770	2,682	2,736	2,790
Total	4,559	7,608	8,908	4,896	3,485

5.0 External Debt

5.1 Authorised Limit for External Debt

The Authorised Limit is based on the Council's estimate of the most likely and prudent requirement for external debt (borrowing) during the year (the Operational Boundary) plus additional headroom for unusual cash movements.

5.2 External debt is the sum of both capital items (see 3.2 above) and short term borrowings to meet day to day cash flow variations.

5.3 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments. The Council is asked to approve these limits and to delegate authority to the Section 151 Officer (Corporate Director – Economy), to operate within the total limit for any individual year.

- 5.4 It will be the duty of the Section 151 Officer to ensure that the authorised limits are consistent with the Council's current and future capital requirements. This limit should take account of risk management strategies, with regard to capital schemes and all future cash flow predictions and includes headroom for unusual cash movements.
- 5.5 Table 7 shows the actual external debt for 2008/09 and the Authorised Limit for external debt for 2009/10 to 2012/13. Based on 2010/11 estimates for capital expenditure and financing.

Table 7: Authorised Limit for External debt (Estimated)					
3,000	Actuals	Per 10/11 Estimates			
	2008/09	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's	£000's
Borrowing	13,000	12,000	14,195	14,235	14,278
Other LTL's	NIL	NIL	NIL	NIL	NIL
Total	13,000	12,000	14,195	14,235	14,278

6.0 Operational Boundary for External Debt

- 6.1 The operational boundary for external debt is based on the same estimates that were used to derive the authorised limit, shown above. However, the amount included to give a degree of 'headroom' is removed. Therefore, this is fundamentally the level of external debt that the Council estimates will be undertaken during any one year. The Council is again asked to approve these limits and to delegate authority to the Section 151 Officer to effect movement between these agreed limits and report back to you, immediately after the event.
- 6.2 The Council's actual external debt at 31 March 2009 was £10m (all short term borrowing) within the Authorised limit for 2008/09 of £10.859m.

Table 8: Operational Boundary for External debt					
	Actuals	Per 10/11 Estimates			
	2008/09	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's	£000's
Borrowing	10,000	9,000	11,195	11,235	11,278
Other LTL's	NIL	NIL	NIL	NIL	NIL
Total	10,000	9,000	11,195	11,235	11,278

7.0 Treasury Management Strategy

- 7.1 All treasury management matters will be undertaken in accordance with CIPFA's revised code for Treasury Management in the Public Services which is up for adoption on a previous agenda item. This recommends best practice on setting interest rate exposures and duration terms for investments.
- 7.2.1 These limits are detailed in the Treasury Management Strategy.

8.0 **Maturity Structure of Borrowing**

This indicator is now contained within the Treasury Management Strategy.

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Executive Board
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