

Prudential Indicators for East Devon District Council

1.0 Introduction

- 1.1 As part of the Prudential Code for Capital Finance in Local Authorities, which was introduced in 2004/05, every Council is required to attach the following Prudential Indicators to its budget setting report. These indicators attempt to 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 required to set will show that the existing and future capital investment plans are affordable, prudent and sustainable. 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 6, shown below, detail all the Prudential Indicators that are required to be attached to this budget report.

2.0 Capital Expenditure

- 2.1 Table 1 shows both actual capital expenditure incurred in 2004/05 and estimates for the years 2005/06 to 2008/09.
- 2.2 These figures show the Council's capital programme net of any grants or contributions received from third parties.

Table 1 – Capital Expenditure (Actual and Estimated) for 2004/05 to 2008/09

	2004/05 £000 Actual	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
General Fund	2.794	3.191	3.833	1.950	0.302
HRA ⁽¹⁾	2.785	3.423	3.216	3.239	3.239
Total	5.579	6.614	7.049	5.189	3.541

Key:

HRA – Housing Revenue Account

Note ⁽¹⁾ The capital sum shown for the HRA includes the major repairs capital expenditure which for accounting purposes is shown within the HRA.

3.0 Ratio of Financing Costs to Net Revenue Stream

- 3.1 Table 2 shows both the actual ratio of financing costs to net revenue stream for 2004/05 and the estimates for 2005/06 to 2008/09. For the General Fund, the ratio of financing costs to net revenue stream shows the total amount of revenue which is provided for the repayment of interest on loans or earned on investments, divided by the budget requirement of the Council to be met by Government Grant and the Council Tax.
- 3.2 For the HRA the ratio of financing costs to net revenue stream shows the amount of revenue which is provided for the repayment of interest on loans or earned on investments, divided by the total income received from Council house tenants plus any Government subsidy received.

Table 2 – Ratio of Financing Costs to Net Revenue Stream (Actual and Estimated) for 2004/05 to 2008/09

	2004/05 %	2005/06 %	2006/07 %	2007/08 %	2008/09 %
	Actual	Estimate	Estimate	Estimate	Estimate
General Fund	-9.23	-10.31	-8.79	-8.37	-7.97
HRA	-0.70	-0.49	-0.47	-0.44	-0.42

NB It has been assumed that the level of reserves will remain constant throughout the lifespan of this plan as it is the Councils intention to set balanced budgets for both revenue and capital during this period. Therefore, any increases in expenditure will have to be matched by cost reductions in other areas, increases in income or by the sale of surplus assets.

4.0 Capital Financing Requirement

- 4.1 Table 3 shows both the actual capital financing requirement for 2004/05 and the estimates for 2005/06 to 2008/09. These figures represent the Councils underlying need to borrow for capital purposes. The 2006/07 capital budget has been produced on the assumption that £1.582m will be borrowed to provide the rigid bins required to deliver the new refuse and recycling contract. A figure of £0.192m has been included in the revenue budget to represent the financing costs associated with this borrowing (made up of £158.2k principle and £33.8k interest). The £1.582m will be borrowed from the Public Works Loan Board over a ten year period on a fixed rate annuity of 4.75%.

Table 3 – Capital Financing Requirement (Actual and Estimated) for 2004/05 to 2008/09

	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
	Actual	Estimate	Estimate	Estimate	Estimate
General Fund	Nil	Nil	1.582	1.424	1.266
HRA	Nil	Nil	Nil	Nil	Nil

5.0 Authorised Limit for External Debt

- 5.1 Table 4 shows the estimated authorised limit for external debt for 2005/06 to 2008/09.
- 5.2 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, and agrees the continuation of the previously agreed limit for the current year since no change is necessary. 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, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the authority. Any such changes made will be reported to the Council at its next meeting following the change.
- 5.3 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 cashflow predictions and also include "headroom" for unusual cash movements and timing.

Table 4 – Authorised Limit for External Debt (Estimated) for 2005/06 to 2008/09

	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
Borrowing	10,500	12,582	12,924	13,266
Other LTL's	511	521	531	541
Total	11,011	13,103	13,455	13,807

Key:

Other LTL's – Long Term Liabilities (for this indicator all long-term debtors shown on the Balance Sheet have been included).

6.0 Operational Boundary for External Debt

- 6.1 Table 5 shown overleaf gives the estimated operational boundary for external debt for 2005/06 to 2008/09.
- 6.2 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.

Table 5 – Operational Boundary for External Debt (Estimated) for 2005/06 to 2008/09

	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
Borrowing	8,000	10,082	10,424	10,766
Other LTL's	511	521	531	541
Total	8,511	10,603	10,955	11,307

Note – The 2006/07 operational boundary for external debt has increased by £1.582m as a direct result of the longer term borrowing undertaken to finance the capital acquisition of rigid bins required to deliver the new refuse and recycling contract.

6.3 The Council's actual external debt at 31 March 2005 was £7.001m, comprising £6.5m short term borrowing and other long term liabilities of £0.501m. It should be noted that the actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at any one point in time.

7.0 Incremental Impact on Council Tax & Weekly Housing Rents

7.1 Table 6 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.

Table 6 – Incremental Impact on Council Tax & Weekly Housing Rents for 2006/07 to 2008/09

	2006/07 £ Estimate	2007/08 £ Estimate	2008/09 £ Estimate
Band D Council Tax ⁽¹⁾	3.43	3.43	3.43
Average Weekly Housing Rent	Nil	Nil	Nil

Note (1) – the Band D Council Tax calculation is based on the 2006/07 property base of 55,930.

7.2 The above table shows the effect of the Council's decision to borrow £1.582m to finance the purchase of rigid bin containers for the new refuse and recycling contract on the Council Tax. This new debt repayment of £192k per annum over the next 10 years is more than compensated for by the revenue savings generated by merging these two services together from 2006/07.

7.3 As the Council does not currently intend to finance any capital investment for the Housing Revenue Account through borrowing there will be no incremental effect on the Council house tenant.

8.0 Consideration of Options for the Capital Programme

8.1 When the capital expenditure programmes have been compiled, the Council has had regard to:

- affordability, e.g. implications on 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 Council
- practicality, e.g. achievability of the forward plan

9.0 Treasury Management Strategy

9.1 All treasury management matters will be undertaken in accordance with CIPFA's revised code for Treasury Management in the Public Services. This recommends best practice on setting interest rate exposures and duration terms for investments.

9.2 These limits are detailed in the Treasury Management Strategy for 2005/06 included within this agenda.

10.0 Maturity Structure of Borrowing

10.1 The new borrowing of £1.582m which will be undertaken during 2006/07 will be in the form of a fixed rate annuity repayable over the next ten years.