

Prudential Indicators for East Devon District Council

1.0 Introduction

- 1.1 As part of the Prudential Code for Capital Finance in Local Authorities, every Council is required to attach the following Prudential Indicators to the annual 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 2006/07 and estimates for the years 2007/08 to 2009/10.
- 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 2006/07 to 2010/11

	2006/07 £000 Actual	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
General Fund	730	2,930	2,570	2,664	1,564
HRA ⁽¹⁾	3,470	3,252	3,587	3,575	3,777
Total	4,200	5,781	6,157	6,239	5,341

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 2006/07 and the estimates for 2007/08 to 2010/11. 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 2006/07 to 2010/11

	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
	Actual	Estimate	Estimate	Estimate	Estimate
General Fund	-8.32	-9.07	-10.94	-10.98	-11.05
HRA	-0.63	-0.63	-0.67	-0.41	-0.39

NB1 It has been assumed that the level of reserves will remain constant throughout the lifespan of this plan as it is the Council's 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.

NB2 The General Fund ratio of financing improves significantly in 2008/09 due to the rephasing of the purchase of refuse and recycling equipment (i.e. initially it had been estimated that £1.15m would be spent in 2007/08. Now a smaller sum will be spent each year.

4.0 Capital Financing Requirement

- 4.1 Table 3 overleaf, shows both the actual capital financing requirement for 2006/07 and the estimates for 2007/08 to 2010/11. These figures represent the Council's underlying need to borrow for capital purposes. The 2008/09 capital budget has been produced on the assumption that a sum of £0.420m (in addition to the £0.300m borrowed in 2007/08) will be borrowed to provide the rigid bins required to deliver the new refuse and recycling contract. A figure of **£0.093m** has been included in the revenue budget to represent the financing costs associated with this borrowing. These loans will be taken out from the Public Works Loan Board over a ten year period at the prevailing fixed annuity rates. It has also been assumed that £0.2m will be borrowed, again from the PWLB, in 2008/09 in order to grant Church House, Sidmouth a loan towards renovation costs. This sum will be borrowed over a twenty five year period and would result in annual financing costs of **£0.014m**. However, it has been agreed that these debt repayments will be recharged to the Church House Trust and therefore should have no financial effect upon the Council.

Table 3 – Capital Financing Requirement (Actual and Estimated) for 2006/07 to 2010/11

	2006/07 £000 Actual	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
General Fund	Nil	1.035	0.840	1.066	1.312
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 2007/08 to 2010/11.

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 2007/08 to 2010/11

	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Borrowing	12,104	12,295	12,924	13,591
Other Long Term Loans	Nil	Nil	Nil	Nil
Total	12,104	12,295	12,924	13,591

6.0 Operational Boundary for External Debt

6.1 Table 5 shown overleaf gives the estimated operational boundary for external debt for 2007/08 to 2010/11.

- 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 2007/08 to 2010/11

	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Borrowing	9,604	9,795	10,424	11,091
Other Long Term Loans	Nil	Nil	Nil	Nil
Total	9,604	9,795	10,424	11,091

Note – The operational boundary for external debt in 2007/08 was based on a long term borrowing decision of £1.150m to purchase the capital acquisition of rigid bins required to deliver the new refuse and recycling contract. In producing the 2008/09 capital budget it has been decided to phase these costs over a number of years. There is an additional £0.200m in 2008/09 in relation to agreed borrowing to help finance the renovation costs of Church House, Sidmouth.

- 6.3 The Council’s actual external debt at 31 March 2007 was £8.2m (all short term borrowing). 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 2008/09 to 2010/11

	2008/09 £ Estimate	2009/10 £ Estimate	2010/11 £ Estimate
Band D Council Tax ⁽¹⁾	1.90	2.61	3.49
Average Weekly Housing Rent	Nil	Nil	Nil

Note (1) – the Band D Council Tax calculation is based on the 2007/08 property base of 56,085.

7.2 The above table shows the effect of the Council's decision to finance the purchase of rigid bin containers for the new refuse and recycling contract by phased borrowing, and £200k Church House loan in 2008/09, on the Council Tax. The debt repayment of £107k in 2008/09 increases to £199k by 2010/11 due to additional borrowing to match the rephasing of the refuse and recycling contract. Debt repayments are fixed for the life of the loan and include both repayment of principle and interest. The financing effect of this decision has increased the Council's band D tax level by £1.90 per annum. It should be noted that the debt repayments associated with the Church House Trust Loan should be met by the Church House Trust.

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 Council house tenants.

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 2008/09.

10.0 Maturity Structure of Borrowing

10.1 All borrowing will be in the form of a fixed rate annuity. Loans relating to the refuse and recycling contract will be repayable over ten years, and the Church House Trust repayable over twenty five years.