Prudential Indicators

1 This appendix sets out the capital prudential indicators which should be considered by the Council when setting its budget. The Council also has to set indicators in relation to Treasury Management and these are included in the Treasury Management Strategy which is on the agenda under references from the Cabinet.

Capital expenditure plans

2 The Council is required to estimate the capital expenditure that it plans to incur in 2012/13 and the following two financial years. It should also approve the actual expenditure in 2010-11 and revised expenditure in 2011-12. The forecast figures are taken from the proposed capital programme for 2012-13 included at Appendix E or the 2010/11 Statement of Accounts for the actuals.

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 proposed programme

Capital programme

all amounts £'000	actual 2010/11	revised 2011/12	proposed 2012/13	proposed 2013/14	proposed 2014/15
agreed/proposed capital programme (limit)	4,727	3,827	3.743	2,132	2,636
Funded from:					
gov't and other grants	546	550	510	510	510
contributions	47	149	330		
capital receipts	4,134	3,128	2,903	1,622	2,126

Ratio of financing costs to net revenue stream.

4 The code defines financing cost as the net result of interest paid and received and is intended to show how much of the revenue expenditure is servicing debt. In this authority it will amount to interest received and will be negative. The figure shown as "net revenue stream" is the budget requirement as in the MTFP (Appendix A). The higher the ratio, the greater the contribution of interest to the net cost of services. This figure is not very meaningful in isolation and does not allow for the fact that an interest producing asset (cash) may have been swapped for a non-interest producing asset (property) which produces income as rents received.

all amounts £'000	actual 2010/11	original budget 2011/12	proposed 2012/13	proposed 2013/14	proposed 2014/15
financing costs	(320)	(372)	(418)	(537)	(743)
net revenue stream	12,957	11,393	10,744	10,338	10,101
ratio of financing costs to net revenue stream	(2.5%)	(3.3%)	(3.9%)	(5.2%)	(7.4%)

Capital Financing Requirement (the council's borrowing requirement)

5 This is designed to measure the authority's underlying need to borrow, or finance by other long-term liabilities, capital expenditure. It is not a straightforward concept especially in a debt-free authority since it is designed to show that medium term net borrowing will only be for a capital purpose. Borrowing may not necessarily take place externally but the authority may be, in effect, lending to itself. Net borrowing should not, except in the short term, exceed the total of the preceding year's capital financing requirement plus the estimate of any additional capital requirement. Any increased cost of borrowing would fall on the council tax.

6 This authority does not intend to borrow to fund its capital programme. There are operational and authorised limits for borrowing in the Treasury Management Strategy for approval but these are for use in the very short term to cover a temporary cash shortage should one arise.

7 At the end of March 2011 the council's CFR was (£22,000). This is as expected – a need to borrow would be a positive figure. This is not expected to change.

The use of the Council's resources and the investment position

8 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated cash flow balances.

Year End Resources All amounts £'000	2011/12 original	2011/12 revised	2012/13 estimate	2013/14 estimate	2014/15 estimate
Capital receipts	4,532	4,634	5,480	6,308	6,297
Funds and reserves	2,800	3,995	4,550	4,824	5,101
Total Core Funds	**7,332**	**8,629**	**10,030**	**11,132**	**11,398**
Working Capital*	2,588	4,271	4,686	4,354	4,459
Expected Investments	**9,920**	**12,900**	**14,716**	**15,486**	**15,857**

*Working capital balances are estimated at year end and will be higher during the year.

Effect on council tax

9 Estimates of the incremental impact of the capital expenditure proposed in this report compared to the council's existing approved commitments and current plans are:

addition (reduction) to band D council tax

Amounts £.p	2012/13	2013/14	2014/15
loss of interest on funds held	0.12	0.30	0.54
estimated revenue consequences of new schemes in each year.	0.49	0.08	0.08
net effect of new schemes in year	0.61	0.38	0.62

These figures reflect the predicted net loss of interest on the funds used for new capital expenditure and the revenue costs or savings that would result directly from the schemes.