Appendix 4

Torbay Council Prudential Indicators 2012/13 and Future Years

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The Chartered Institute of Public Finance & Accountancy Code of Practice recommends a set of Indicators designed to help Councils to ensure their capital investment plans are “affordable”, “prudent” and “sustainable”. The Indicators are as follows –

Affordability:

- Ratio of Financing Costs to Net Revenue stream
- Incremental impact of capital investment decisions on Council Tax
- that Net external borrowing does not exceed, except in the short term, the Capital Financing Requirement in the preceding year and next three years.
- Estimates of capital expenditure
- Estimates of Capital Financing Requirement
- Authorised limit for external debt
- Operational boundary for external debt
- Treasury Management Indicators

The matters required to be taken into account by the Council in setting or revising their prudential indicators are as follows –

- Affordability - implications for Council Tax & the Council’s resources generally
- Prudence and sustainability - implications of borrowing & whole life costs
- Value for money - option appraisal
- Stewardship of assets - asset management planning
- Service objectives - strategic planning for the authority
- Practicality - achievability of the forward plan

These issues are taken into account strategically through the development of the Asset Management Plan, the Corporate Capital Strategy, the Capital Projects Reserve List, the Medium Term Resource Plan and the current Revenue & Capital Budget review process.

These indicators are based on assumptions made in relation to the Council’s revenue and capital budgets for the following four years. These indicators relate very closely to assumptions on investment and borrowing within the Treasury Management Strategy.

The indicators are also based on guidance in the Prudential Code and the Practitioners’ Guide to Capital Finance (both CIPFA)

Prudential Indicators for Affordability

Ratio of Financing Costs to Net Revenue stream

This indicator shows how much of the net Revenue Budget is used to pay the costs of borrowing and other credit. It includes the costs of interest on borrowing and for setting aside provision for the repayment of principal, offset by investment income.

These costs are then shown as a percentage of the net Revenue Budget (to be met from General Grants and Council Tax). The change year on year shows the effect that capital investment has upon the overall financial strategy of the Council.

As capital projects take time to complete the effect on the Revenue Budget builds up over time. i.e. the full year effect of spending in 2012/13 is not an impact until 2013/14.

Revenue Costs of Capital - Estimated	Est. Outturn 2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m
Interest on Borrowing & Other Finance	6.7	6.6	6.6	6.6	6.6
Debt Rescheduling	0.2	0	0	0	0
Finance Costs re PFI	0.5	0.5	0.5	0.5	0.4
Investment Income	(1.4)	(1.0)	(1.1)	(1.3)	(1.5)
Cost of Deferred Liabilities	0.5	0.5	0.5	0.5	0.5
Minimum Revenue Provision (MRP)	4.0	4.1	4.0	4.2	4.0
Direct Financing of capital from revenue	0	0	0	0	0
Total Financing Costs	**10.5**	**10.7**	**10.5**	**10.5**	**10.0**
Net Revenue Budget	126	122	122	122	122
Ratio - Including direct financing - Revenue	**8%**	**9%**	**9%**	**9%**	**8%**
Ratio – Excluding direct financing - Revenue	**8%**	**9%**	**9%**	**9%**	**8%**

In calculating this indicator the following assumptions are made –

- The calculation does not include Government support towards the costs of Supported Borrowing paid through Formula Grant or the PFI Grant
- The calculation does not include any repayment by services for schemes funded prudential borrowing.
- Direct Financing of Capital would have been funded from revenue budgets.
- Future year Council revenue budget similar level to estimate for 2012/13

Estimate of Incremental impact of capital investment decisions on Council Tax

This is the estimate of the incremental effect on Council Tax of capital investment decisions being recommended to Council in this report over and above the existing 4-year Capital Investment Plan already approved. It demonstrates the cost (or saving) of decisions to change the Capital Plan, which are included in the proposed Council Tax (Band D). This indicator is calculated by comparing the revenue cost of the existing Capital Plan with the estimated cost/saving of the proposed new Budget. It does not imply that Council Tax has to be increased or decreased by this amount but it indicates how much of the Band D Tax represents the marginal cost/saving of new investment.

	2012/13	**2013/14**	**2014/15**	**2015/16**
	£000's	**£000's**	**£000's**	**£000's**
Incremental impact of capital investment decisions on Council Tax	(65)	(312)	(312)	(312)
Equivalent % of Band D Council Tax (Torbay element only)	(0.1)%	(0.4)%	(0.4)%	(0.4)%

The calculation includes any expected changes in –

- Annual interest costs of new Borrowing
- Minimum Revenue Provision for repayment of principal
- New direct revenue funding of capital schemes falling on Council Tax (if any)

This indicator cannot be finally confirmed until the Revenue Budget is agreed – an illustrative 2012/13 Revenue Budget figure of £122m has been used in the calculation.

Prudential Indicators for Prudence

Net Borrowing and the Capital Financing Requirement

In line with best practice, the Council has adopted the CIPFA Code of Practice for Treasury Management and has an integrated Treasury Management Policy and therefore does not associate borrowing with particular schemes or types of expenditure. External borrowing can arise as a consequence of all the financial transactions of the Council and in daily cash management no distinction can be made between revenue and capital cash.

However over the medium term borrowing should only be undertaken for a capital purpose. To demonstrate this Net Borrowing except in the short-term) should not exceed the Capital Financing Requirement (CFR). (The CFR indicator measures the Council's underlying need to borrow for a capital purpose over the medium term).

	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing as at 31/03/xx	153	153	153	153	153
Less Investments as at 31/03/xx	(82)	(67)	(64)	(63)	(59)
Net Borrowing	71	86	89	90	94
Long Term Liabilities as at 31/3/xx	10	10	9	8	58 *
Net Borrowing & Long Term Liabilities as at 31/3/xx	**81**	**96**	**98**	**98**	**152**
Capital Financing Requirement as at 31/3/xx	**139**	**140**	**141**	**139**	**194 ***

* The Council is working in partnership with two other Councils in relation to a PFI scheme for an "Energy from Waste" Plant in Plymouth. If an assessment of the contract results in the Council recognising an asset and a liability for the plan this will significantly increase the Council's overall long term liabilities. For these indicators a liability of £50 million has been assumed from 2015/16.

Prudential Indicators for Capital Expenditure, External Debt & Treasury Management

Estimated Capital Expenditure

This is the Estimated Capital spend for the forthcoming and future years as per the proposed 4-year Capital Investment Plan.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Capital Expenditure in year	**17**	**9**	**5**	**9**

Authorised Limit for External Debt

This is the Statutory "affordable borrowing limit" required under section 3(1) of the Local Government Act 2003. Impending breach would require the Council to take avoiding action. The Limit approved for 2011/12 was £228m.

Included in this limit is any long term liability the Council has such as the Schools PFI arrangement. With the introduction of International Financial Reporting Standards the Council is likely to have more long term liabilities.

	2012/13	2013/14	2014/15	2015/16
Borrowing	182	187	192	197
Other Long-term Liabilities	10	9	8	58
Total Authorised limit	**192**	**196**	**200**	**255**

The proposed limits are calculated having regard to the Council's existing commitments, approved Capital Budget and the proposals for new spending contained in the Capital Budget Report. In addition to the Basic assumptions above, the Limits allow for the following –

- consistency with the Council's Treasury Management & Annual Investment Strategy
- an anticipation of the "worst case scenario" for daily cashflow providing headroom over the Operational Boundary and incorporating risk analysis of slippage in spending and income receipts
- the option to borrow funds to finance the Capital Plan budget in advance of projected spending if market forces indicate this is financially advantageous
- provision to allow Prudential Borrowing for new "spend-to-save" schemes or to consider alternative financing options
- the projected Capital Financing Requirement above

Operational Boundary for External Debt

This is the most likely, but not worst case scenario for day-to-day cash management purposes. This indicator provides an early warning for a potential breach in the Authorised Limit. The CIPFA Prudential Code recognises that this Indicator needs to provide a realistic pointer that treasury operations are within affordable and statutory limits. Occasional breach of this limit is not serious but sustained breach would indicate that prudential boundaries the Council has set may be exceeded, requiring immediate Council action.

	2012/13	2013/14	2014/15	2015/16
Borrowing	163	163	163	163
Other Long-term Liabilities	10	9	8	58
Total Operational Boundary	**173**	**172**	**171**	**221**

The Limit is based upon the same assumptions used for the Authorised Limit but assumes a more likely scenario for slippage in spending and income receipts than taken for the Authorised Limit. It does not have the additional headroom for unusual cash movements and is consistent with the cost of financing estimates used for the purpose of setting the Revenue Budget.

Capital Financing Requirement at 31 March 2012

This indicator measures the Council's underlying need to borrow to fund capital projects and dictates the amount of money the Council has to set aside from its Revenue Budget (Minimum Revenue Provision) as provision for repayment of any actual debt it incurs. It increases as a result of Capital spending where resources are not set aside immediately from capital receipts, grants, contributions and revenue.

The outturn figures are derived from the Balance Sheet by consolidating a number of categories including Non Current Assets, Capital Financing, Revaluation Reserve and the Capital Adjustment Account.

Capital Financing Requirement as at 31/3/xx	**Outturn 2011/12**
	£m
Opening Balance	138
Capital Expenditure in Year funded from Borrowing (est)	5
Revenue Provision for repayment of Principal	(4)
Capital Financing Requirement at Year End	**139**
Net Debt including long term liabilities	*£81m*

Estimate of the Capital Financing Requirement (CFR)

This indicator measures the Council's underlying need to borrow for a capital purpose. It is derived from Balance Sheet values including Fixed Assets and increases as a result of Capital spending not financed immediately from capital receipts, grants, contributions and revenue.

	2011/12 Estimate	2012/13	2013/14	2014/15	2015/16
Capital Financing Requirement	139	140	141	139	194

Prudential Indicator in respect of Treasury Management

The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sector Guidance Notes. The CIPFA Code of Practice on Treasury Management was last adopted by the Council on 25th March 2010.

The Treasury Management Strategy is closely linked to the Council's Capital expenditure plans. Any proposals to vary the Council's external debt for capital purposes will be undertaken in accordance with that Strategy. The Prudential Indicators for Treasury Management, which form part of the Council's 2012/13 Treasury Management Strategy, are provided and explained further in that document to be presented to Council in February.

Additional Prudential Indicators in respect of Treasury Management, including the limits for Fixed and Variable interest rate exposure, are also presented in the Treasury Management Strategy Report to Council.