

Prudential indicators

1 Affordability

1.1 Ratio of financing costs to net revenue stream

These indicators compare the net interest payable less investment income receivable to the overall net revenue spending of the council. Because the council has a high level of investment income and no long term borrowing this indicator is negative.

Indicator A-1	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Ratio of financing costs to net revenue stream	actual	estimate	estimate	estimate	estimate	estimate
Non – HRA	(16.2%)	(12.4%)	(14.0%)	(15.5%)	(18.1%)	(18.5%)

Even though this indicator is negative it is still important for the council as it shows a gradual increase over the period. This is due to the expected slow rise in interest rates, which will impact on the investment income earned by the council, and the expected fall in the council's net revenue spending as government grant income falls.

The key point to note for this authority is that in the Medium Term Financial Plan (MTFP) the council will be using the projected increase in investment income to help mitigate the effects of the reduction in government grant income over this period.

1.2 Estimated incremental impact of capital investment decisions on the council tax

This indicator estimates the incremental impact of capital investment decisions on the council tax by comparing the likely council tax based on the current capital programme and the likely council tax based on the proposed capital programme.

Indicator A-2	2013/14	2014/15	2015/16	2016/17	2017/18
Incremental impact of capital investment decisions on council tax	estimate	estimate	estimate	estimate	estimate
	£	£	£	£	£
Band D council tax	2.06	0.51	0.28	0.32	0.44

This demonstrates the potential increase in band D council tax if this was viewed in isolation. However the MTFP shows that the capital expenditure proposals, when viewed alongside the revenue proposals, are sustainable over the medium term, in accordance with the assumptions included in the MTFP.

2 Prudence

2.1 Net borrowing and the capital financing requirement

It is prudent to ensure that borrowing is only used to fund capital (as opposed to revenue) expenditure. The indicator to measure whether this is achieved is to demonstrate that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. For this council this means that the value of investments should be equal to or higher than the capital financing requirement.

Indicator P-1	2012/13 estimate £000	2013/14 estimate £000	2014/15 estimate £000	2015/16 estimate £000	2016/17 estimate £000
Capital financing requirement	0	0	0	0	0
Average level of investments	115,500	97,337	92,904	89,380	85,303

The head of finance reports that the authority had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the 2013/14 budget.

3 Capital expenditure

3.1 Capital expenditure

The first indicator shows the total capital expenditure plans of the council's approved plus provisional programme.

Indicator C-1	2013/14 estimate £000	2014/15 estimate £000	2015/16 estimate £000	2016/17 estimate £000	2017/18 estimate £000
Estimates of capital expenditure					
Approved programme	4,209	867	845	845	845
Provisional programme	11,495	10,928	2,305	1,290	1,290
TOTAL	15,704	11,795	3,150	2,135	2,135

The second indicator records actual capital expenditure for the previous financial year.

Indicator C-2	2011/12 estimate £000	2011/12 actual £000
Actual capital expenditure		
Approved programme	4,539	2,863
Provisional programme	1,638	0
TOTAL	6,177	2,863

3.2 Borrowing need

This indicator reflects the authority's underlying need to borrow for a capital purpose, its Capital Financing Requirement (CFR). This borrowing may not need to take place externally, and the council may judge it prudent to make use of cash that it has already invested for long term purposes.

Indicator C-3	31/3/2012	31/3/2013	31/3/2014	31/3/2015	31/3/2016	31/3/2017
	estimate	estimate	estimate	estimate	estimate	estimate
	£000	£000	£000	£000	£000	£000
Estimate of capital financing requirement						
Non-HRA	0	0	0	0	0	0
Estimate of movement in year						
Non-HRA	0	0	0	0	0	0

The capital financing requirement as at 31 March each year is derived from specific balances within the balance sheet, and adjustments are made for capital expenditure, and the resources applied to finance the expenditure. As all the authority's capital expenditure is resourced immediately from capital receipts, reserves, grants, contributions and directly from revenue, the CFR remains constant throughout.

The actual CFR for 31 March 2012 is shown below.

Indicator C-4	31/3/2012
	actual
	£000
Actual capital financing requirement	
Non-HRA	0
Actual movement in year	
Non-HRA	0

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