

Recommended Prudential Indicators

This appendix shows the way in which the prudential indicators will be presented to the Council for approval. The Authorised Limit cannot be exceeded, all other indicators are estimates.

Affordability

1. The actual ratio of financing costs to net revenue stream for 2002/03 and estimates for the current year and for the period 2004/05 to 2006/07 are:

	2002/03 % Actual	2003/04 % Estimate	2004/05 % Estimate	2005/06 % Estimate	2006/07 % Estimate
Non- HRA	2.77	3.40	4.11	4.73	5.03
HRA	27.79	25.62	20.15	22.35	24.09

2. The level of “unsupported” borrowing for the General Fund is as follows (this is a local indicator):

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
Unsupported borrowing brought forward	3,998	17,667	28,362
New Unsupported borrowing	14,400	12,000	2,000
Less Unsupported borrowing repaid	(731)	(1,305)	(1,760)
Total Unsupported borrowing carried forward	17,667	28,362	28,602

3. The level of “unsupported” borrowing relating to the HRA is as follows (this is a local indicator):

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
Unsupported borrowing brought forward	0	6,000	11,880
New Unsupported borrowing	6,000	6,000	6,000
Less Unsupported borrowing repaid	0	(120)	(238)
Total Unsupported borrowing carried forward	6,000	11,880	17,642

4. The estimated incremental impact on council tax and average weekly rents of capital investment decisions proposed in the General Fund Budget and HRA Budget reports over and above capital investment decisions that have previously been taken by the council are:

	2004/05 £ Estimate	2005/06 £ Estimate	2006/07 £ Estimate
Band D council tax (£1,003)	5.15	15.45	20.60
HRA rent (£45.85)	0.42	0.85	1.27

The total Band D Council Tax (City Council element) recommended in this budget report is £1,003 and the average weekly rent already approved is £45.85

Prudence

5. The actual capital expenditure incurred in 2002/03 and estimates of capital expenditure to be incurred in the current financial year and for the period 2004/05 to 2006/07 (based upon the Council Capital Programme agreed by Council on 29th January, and the proposed budget and estimates for future years) that are recommended are:

	2002/03 £000 Actual	2003/04 £000 Estimate	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
Education	10,432	16,279	25,000	14,000	14,000
Housing	8,063	7,012	8,534	7,051	4,670
Transport	13,261	10,146	9,099	15,037	22,737
Regeneration	7,091	10,481	5,131	1,810	1,518
Other	3,998	7,775	19,920	14,200	4,200
Total non- HRA	42,845	51,693	67,684	52,098	47,125
HRA	20,304	19,397	27,161	25,365	25,720
Total	63,149	71,090	94,845	77,463	72,845

6. The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from the capital spending. By contrast the Capital Financing Requirement reflects the authority's underlying need to borrow for capital purposes.

The estimates of the capital financing requirement for the current financial year and for the period 2004/05 to 2006/07 (based upon the Council Capital Programme agreed by Council on 29th January, and the proposed budget) are:

	2003/04 £000 Estimate	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
Non- HRA	176,939	206,408	232,334	248,741
HRA	162,240	174,049	185,929	197,500

7. The Capital Financing requirement split between Unsupported and Supported borrowing for the current year and next 3 years is (this is a local indicator):

	2003/2004 £000 Estimate	2004/2005 £000 Estimate	2005/2006 £000 Estimate	2006/2007 £000 Estimate
General Fund Capital Financing Requirement - Supported Borrowing	172,941	188,741	203,972	220,139
General Fund Capital Financing Requirement – Unsupported Borrowing	3,998	17,667	28,362	28,602

Total General Fund Capital Financing Requirement	176,939	206,408	232,334	248,741
--	---------	---------	---------	---------

8. CIPFA's Prudential Code for Capital Finance specifies the requirement that over the medium term net borrowing will only be for capital purposes, and that authorities should ensure that net borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years. The authority has met this requirement in 2003/04 and, based upon current capital commitments and proposals in this budget report, there are not anticipated to be any difficulties for the current or future years.
9. The following Authorised Limits for external debt, gross of investments, are recommended for the next 3 years. These limits separately identify borrowing from other long term liabilities, such as finance leases.

The Authorised Limit is based on the Council's current commitments, as set out in the capital programme agreed by Council on 29 January and fully reflect the impact of proposals made in this budget setting report. The Authorised Limit is also consistent with the Council's approved treasury management policy statement and practices. The Council is also asked to delegate authority to the CFO, within the total Authorised Limit for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities. Any such changes will be reported to the Council meeting following the change.

The estimates are based upon an estimate of the most likely, prudent but not worst case scenario and has been based upon standard risk management policies.

The Authorised Limit contains headroom to enable self financing "spend to save" schemes to be undertaken, based upon a proven business case for investment being carried out and appropriate risk management strategies being in place. The Authorised Limit also includes sufficient headroom for the Council to enter other forms of credit arrangements, such as long term leases, subject to underlying revenue funding being in place to finance such arrangements, which according to general accounting practice must be shown as external borrowing.

In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2004/05 will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2004/2005 Estimate £000	2005/2006 Estimate £000	2006/2007 Estimate £000
Borrowing required for government supported borrowing	353,350	376,250	400,132
Other long term liabilities	45,031	43,158	41,430
Unsupported Borrowing - HRA	6,000	11,880	17,642
- General Fund	17,667	28,362	28,602
Cashflow/Refinancing headroom	86,113	65,167	57,000
Total Authorised Limit	508,161	524,817	544,806

10. The following Operational Boundary for external debt, gross of investments, are recommended for the next 3 years. These limits separately identify borrowing from other long term liabilities, such as finance leases. The proposed Operational Boundary for external debt is based upon the same estimates as the Authorised Limit but reflects directly the CFO's estimate of the most likely, prudent but not worst case scenario, without additional headroom included within the Authorised Limit to allow for unusual cash movements and equates to the maximum external debt projected by this estimate. The Operational Boundary represents a key management tool for in year monitoring by the CFO.

The Council is also asked to delegate authority to the CFO, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities.

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
Borrowing required for government supported borrowing	353,350	376,250	400,132
Other long term liabilities	45,031	43,158	41,430
Unsupported Borrowing	23,667	40,242	46,244
Cashflow/Refinancing headroom	45,573	36,783	31,300
Total Operational Boundary	467,621	496,433	519,106

Sustainability

11. On 24 November the Council's cabinet adopted CIPFA's Code of Practice for Treasury Management in the Public Services.
12. It is recommended that the Council sets an upper limit on its fixed and variable interest rate exposures for the period 2004/05 to 2006/07, as a percentage of the total debt net of investments, as follows:

	2004/05	2005/06	2006/07
	%	%	%
Fixed interest rate	150	140	130
Variable interest rate	25	35	45

13. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows, which shows the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

	Upper Limit (%)	Lower Limit (%)
Under 12 months	15	0
12 months and within 24 months	30	0
24 months and within 5 years	60	0
5 years and within 10 years	60	0
10 years and above	100	0

14. The upper limit for principal sums invested for more than 364 days is £30 million for 2004/05 and subsequent years.