

Prudential Indicators

1. The Local Government Act 2003 and related regulations requires the Authority to monitor Prudential Indicators to check that capital expenditure is affordable. Actual capital expenditure that was incurred in 2008/09 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure					
	2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
Total Non-HRA	27,962	28,384	24,596	1,960	463
HRA	7,894	6,965	10,165	3,395	3,395
Total	35,856	35,349	34,911	5,355	3,858

2. During 2009/10 Corby Borough Council will exhaust its pool of capital receipts held by the authority to fund capital expenditure. The capital expenditure programme for 2009/10, indicates that the Council will need to borrow £15.4m. Specifically, it is proposed that the majority of this borrowing will be for the Corby Cube. The full affect of the financing costs is seen in 2010/11 when the ratio of financing costs rises to 7.70%.

The Council are exploring various options in relation to capitalisation of interest costs and reducing the impact on revenue streams.

Estimates of the ratio of financing costs to net revenue stream					
	2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
Total Non-HRA	0.0%	0.76%	7.70%	6.78%	5.65%
HRA	0.82%	0.27%	0.75%	0.89%	0.75%

3. Short-term borrowing for the General Fund in 2009/10 and 2010/11 is a stand-in for capital receipts deferred for a few years. 2010/11 also includes the provision of £10m for the Kick Start programme, which the Council has underwritten as agreed at One Corby Policy Committee on 15th December 2009. The Authority anticipates that the majority of General Fund borrowing will be repaid within three to four years, the only outstanding borrowing will be for the litigation case in relation to the land reclamation. On this basis, the authority will need to charge its revenue account for repayment of the loan.

Estimates of the end of year net borrowing requirement and capital financing requirement for the Council for the current and future years and the actual capital financing requirement at 31 March 2010 are:

Net Borrowing Requirements					
	2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
Brought forward 1 st April	0	3,000	18,369	41,468	27,688
Carried forward 31 March	3,000	18,369	41,468	27,688	26,074
In year borrowing requirements	3,000	15,369	23,099	(13,780)	(1,614)

4. The capital financing requirement measures the Council's underlying need to borrow for a capital purpose. However, in practice, the Council's bank account does not distinguish between capital and revenue expenditure. External borrowing can arise both from a need to borrow for a capital purpose and short-term timing issues from revenue expenditure and income. The Council follows the Code of Practice for Treasury Management in the Public Services in managing its daily cashflow investments and borrowings.

Capital financing requirement					
	2008/09 Actual £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000	2012/13 Estimate £000
Non-HRA	(896)	13,666	31,770	18,225	16,826
HRA	4,339	5,146	10,141	9,906	9,691

5. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure 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."

The Head of Financial Services reports that the Council had no difficulty meeting this requirement in 2008/9, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments and existing plans included within these estimates.

6. In respect of its external debt, the Council has started to borrow in 2009/10 and therefore the authority no longer has a debt-free status. The Council is asked to approve these borrowing limits and to delegate authority to the Head of Financial Services to borrow on this basis. Any changes made will be reported to the Council at its next meeting following the change.

7. The Head of Financial Services reports that these authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved Treasury Management Policy statement and practices. The Head of Financial Services confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

	Authorised limit for external debt			
	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Borrowing	22,369	45,468	31,688	30,074
Other long term liabilities	0	0	0	0
Total	22,369	45,468	31,688	30,074

8. The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the Head of Financial Services estimate of the most likely, prudent but not worst case scenario. Without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Head of Financial Services. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Council is also asked to delegate authority to the Head of Financial Services, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

	Operational boundary for external debt			
	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Borrowing	18,369	41,468	28,131	26,517
Other long term liabilities	0	0	0	0
Total	18,369	41,468	28,131	26,517

9. The HRA's actual external debt at 31 March 2009 was £3m (funded by General Fund surplus cash). It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the cashflow position at one point in time.

10. In taking its decisions on this report, the Council is asked to note that the authorised limit determined for 2009/10 (see paragraph 6 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.
11. The estimate of the incremental impact of capital investment decisions proposed in this report are as follows:
- a. for the Band D Council Tax -borrowing costs and estimated loss of revenue interest per week through the annual capital expenditure programme are illustrated below:

2009/10	2010/11	2011/12	2012/13
£8.85	£24.22	£3.24	£1.00

- b. for average weekly housing rents – estimated notional impact of a zero capital programme, after adjusting for the Major Repairs Allowance :

2009/10	2010/11	2011/12	2012/13
£0.17	£0.79	£0.45	£0.60

Consideration of options for the capital programme

12. In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:
- affordability, eg implications for Council Tax
 - prudence and sustainability, eg implications for external borrowing
 - value for money, eg option appraisal
 - stewardship of assets, eg asset management planning
 - service objectives, eg strategic planning for the Council
 - practicality, eg achievability of the forward plan.
13. A key measure of affordability is the impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

14. Proposed upper limits for fixed or variable interest rate exposures in terms of external borrowing for 2010/11 are as follows:

Upper limits for fixed or variable interest rate			
	2010/11 £'000	2011/12 £'000	2012/13 £'000
Fixed Rates	45,468	31,688	30,074
Variable Rates	45,468	31,688	30,074