

Amendments to the Council's Prudential Indicators

Introduction

1. The Prudential Code was developed by the Chartered Institute of Public Finance and Accounting (CIPFA) to assist local authorities in taking their decisions regarding capital expenditure.
2. The Prudential Code sets out a clear governance procedure for the setting and revising of prudential indicators. This is done by the same body that takes the decisions for the local authority's budget - Full Council. The Chief Finance Officer (the Head of Finance, ICT, Internal Audit and Procurement) is responsible for ensuring that all matters required to be taken into account are reported to Full Council for consideration, and for establishing procedures to monitor performance.
3. In setting the indicators due regard was paid to the following matters:
 - 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 forward plan
4. Set out below starting from paragraph 5 are the Prudential Indicators that require amending following recent approvals of capital projects via shared service business cases, and approved alterations to the 5 year capital programme following the approval of the Council Strategic Plan 2012-16.

Prudential Indicators – Required amendments

Management of Capital Expenditure Prudential Indicators

Estimates of Capital Expenditure

5. ***The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators shall be referred to as:***

Estimate of total capital expenditure to be incurred in years 1, 2 and 3.

6. In addition to the approved capital programme the estimates of capital expenditure include any capital expenditure that is estimated, might (depending on option appraisals) or will be dealt with as other long term liabilities.

| Indicator 1 | 2012/13 £000 Approved | 2012/13 £000 Revised | 2013/14 £000 Indicative | 2014/15 £000 Indicative | 2015/16 £000 Indicative |
|-------------|-----------------------------|----------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditure | 6,104 | 7,809 | 966 | 515 | 718 |

Estimates of ratio of financing costs to net revenue stream

7. ***The local authority will estimate for the forthcoming financial year and following two financial years the ratio of financing costs to net revenue stream.***
8. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs

| <u>Ratio of Financing Costs to Net Revenue Stream</u> | | | | | |
|--|-----------------------------|----------------------------|-------------------------------|-------------------------------|-------------------------------|
| Indicator 2 | 2012/13 £000 Approved | 2012/13 £000 Revised | 2013/14 £000 Indicative | 2014/15 £000 Indicative | 2015/16 £000 Indicative |
| Ratio % | (11%) | (12%) | (11%) | (11%) | (11%) |

NB: In circumstances where interest costs on borrowing are greatly exceeded by interest and investment income the ratio of financing costs to the net revenue stream will be negative. This reflects the fact that the authority is making a contribution to the income and expenditure account via its investment income stream.

Interest Rate Exposure

9. ***The local authority will set, for the forthcoming year and the following two years, upper limits to its exposures to the effects of changes in interest rates. These prudential indicators will relate to both fixed interest rates and variable interest rates and will be referred to respectively as the upper limits on fixed and variable interest rate exposures.***

Upper limits on fixed and variable rate exposures

10. These two indicators, allow the Council to manage the extent to which it is exposed to changes in interest rates. Such decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy. In circumstances where interest costs on borrowing are greatly exceeded by interest and investment income the upper limit for fixed and variable interest rate exposure will be negative.

| Upper limit for Fixed and Variable Rate Exposure | | | | | |
|---|--------------------------------------|-------------------------------------|--|--|--|
| | 2012/13 £000 Approved | 2012/13 £000 Revised | 2013/14 £000 Indicative | 2014/15 £000 Indicative | 2015/16 £000 Indicative |
| Indicator 7 | | | | | |
| <u>Upper Limit for Fixed Interest Rate Exposure</u> | (754) | (792) | (768) | (807) | (844) |
| <u>%</u> | 100% | 100% | 100% | 100% | 100% |
| Indicator 8 | | | | | |
| Upper Limit for Variable Interest Rate Exposure | (377) | (396) | (384) | (404) | (422) |
| % | 50% | 50% | 50% | 50% | 50% |

11. The upper limits on interest rate exposures can be expressed either as absolute amounts or as percentages.