

PRUDENTIAL INDICATORS

The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2013–2016. The Prudential Indicators for Housing have been shown for the purpose of completeness but will be approved as part of the Housing section of the report.

1.0 Indicators of Affordability

Prudential Indicators (PIs) 1 to 4 are key indicators of affordability.

1.1 Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

This indicator shows the estimate of the ratio of financing costs to net revenue stream for the current and future years, that is the proportion of the budget (for both General Fund and Housing) that is spent on the financing of capital spend. The estimates of financing costs include the proposed 2013-23 Capital Plan.

The actual figures for 2011/12 are also set out in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream (PIs 1 and 2)

	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Est.	Est.	Est.	Est.
General Fund	14.00%	14.64%	16.79%	17.61%	16.63%
HRA	17.14%	27.63%	29.70%	22.39%	20.52%

The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes and leases. To enhance the information available for decision-making we have also provided a local indicator to show the proportion of the budget that is spent on unsupported borrowing. This is shown in Table 2 below:

Table 2: Ratio of Financing Costs for prudential (unsupported) borrowing to Net Revenue Stream (PIs 1 and 2)

	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Est.	Est.	Est.	Est.
General Fund	6.18%	7.02%	8.22%	8.64%	8.57%
HRA	4.04%	3.97%	10.20%	4.47%	4.96%

1.2 Impact on Council Tax and Housing Rents (PIs 3 and 4)

This prudential indicator reflects the estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken. These figures reflect the amount of unsupported borrowing that is built into the proposed Capital Plan in terms of both unsupported borrowing costs and any changes to revenue running costs arising from the proposed Capital Plan.

This indicator has been calculated based on the current level of Council Tax and Housing rent and will be amended once any changes to Council Tax and Housing rents are made.

Table 3: Impact on Council Tax and Housing Rents (PIs 3 and 4)

	2013/14 £	2014/15 £	2015/16 £
For the Band D Council Tax	1.88	13.47	29.02
	2013/14 £	2014/15 £	2015/16 £
For average weekly housing rents	-2.67	7.09	3.73

1.3 Net Borrowing and the Capital Financing Requirement (PI 5)

This is a key indicator for prudence and is designed to ensure that, over the medium term, net debt will only be for capital purposes. Net debt should not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

Following changes to the CIPFA Prudential Code this indicator now includes all debt (PFI schemes and finance leases) rather than purely borrowing. The Council's net debt is set out below together with the estimated capital financing requirement (i.e. the authority's underlying need to borrow for capital purposes) projected to 31 March 2016.

- Estimated net debt as at 31 March 2014 - £542.396m
- Capital Financing Requirement as at 31 March 2016 - £643.584m

1.4 Capital Expenditure (PIs 6 and 7)

The actual capital expenditure that was incurred in 2011/12 and the estimates of capital expenditure to be incurred for the current and future years are set out in Table 4 below:

Table 4: Capital Expenditure (Pls 6 and 7)

	2011/12 Actual £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's
Chief Executive's Office	13,124	14,083	16,504	15,952	7,126
Children, Young People and Learning	7,355	15,229	3,750	3,683	67
Community Services	2,417	10,911	1,957	0	0
Finance and Resources	3,146	2,424	3,600	3,000	3,000
Corporate items	8,761	1,012	1,500	500	500
Total General Fund	34,803	43,659	27,311	23,135	10,693
HRA	13,660	19,415	16,743	22,451	25,101
Total	48,463	63,074	44,054	45,586	35,794

These estimates mirror those shown in Table 14 of Annex 1.

1.5 Capital Financing Requirement (CFR) (Pls 8 and 9)

The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP). In accordance with best professional practice the authority does not associate borrowing with particular items or types of expenditure.

The actual external debt of the authority may be lower than the CFR as the authority may choose to use its own external funds (reserves, balances, provisions etc) to finance borrowing. The difference between the CFR and actual external debt is the unfunded element (or internal borrowing) of the CFR. As at 31 March 2012, the Council's overall CFR (excluding PFI and leases) was £530.910m. Actual external debt was £446.111m giving an unfunded element (or internal borrowing) of £84.799m.

Estimates of the end of year Capital Financing Requirement for the authority for the current and future years and the actual Capital Financing Requirement at 31 March 2012 are set out in Table 5 below:

Table 5: Capital Financing Requirement (PIs 8 and 9)

	2011/12 Actual £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's
General Fund	291,547	297,998	300,905	296,418	291,534
HRA	290,824	300,258	317,599	337,280	352,050
Total	582,371	598,256	618,504	633,698	643,584

The above indicator shows the total borrowing requirement, both supported and unsupported. To enhance the information available for decision-making we have provided a local indicator to show the Capital Financing Requirement for unsupported borrowing. This is shown in Table 6 below:

Table 6: Capital Financing Requirement for Unsupported Borrowing (PIs 8 and 9)

	2011/12 Actual £000's	2012/13 Est. £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's
General Fund	124,094	130,161	128,791	130,685	131,487
HRA	47,406	44,906	41,006	40,256	38,756
Total	171,500	175,067	169,797	170,941	170,243

1.6 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

The Council has an integrated Treasury Management Strategy and has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. North Tyneside Council has, at any point in time, a number of cash flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy and Practices.

In addition to the Prudential Indicators set out above, there are a set of Treasury Management Indicators which cover the following:

- (a) Authorised limit for external debt;
- (b) Operational boundary for external debt;

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- (c) Upper limits for exposure to fixed and variable interest rates; and,
- (d) Maturity structure of borrowing.

These indicators are an integral part of the Council's Treasury Management Strategy. The Council's 2012/13 Treasury Management Strategy is due to be reported to Cabinet in January as part of the budget setting process. However, to some extent, the strategy is informed by decisions on the Council's budget setting process and can only be presented in an informed way once the budget is set. With this in mind, the Treasury Management Indicators are presented here based upon approval of the budget proposals set down in this report.

1.7 External Debt

In respect of its external debt, it is recommended that the Council approves the following Authorised Limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary.

These limits separately identify borrowing from other long-term liabilities such as PFI and finance leases.

Council is requested to approve these limits and to delegate authority to the chief finance officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the Council.

Any such changes made will be reported to the Cabinet at its next meeting following the change.

Table 7: Authorised Limit for External Debt

	2013/14 £000's Est.	2014/15 £000's Est.	2015/16 £000's Est.
Borrowing	1,070,000	1,060,000	1,050,000
Other Long Term Liabilities	110,000	130,000	140,000
Total	1,180,000	1,190,000	1,190,000

The chief finance officer reports that these Authorised Limits are consistent with the authority's current commitments, existing plans and the proposals in this 2012/13 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

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The chief finance officer 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 cash flow requirements for all purposes.

Council will be requested 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 chief finance officer's 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 chief finance officer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. Council is requested to delegate authority to the chief finance officer, 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 Cabinet at its next meeting following the change.

Table 8: Operational Boundary for External Debt

	2013/14 £000's	2014/15 £000's	2015/16 £000's
	Est.	Est.	Est.
Borrowing	535,000	530,000	525,000
Other Long Term Liabilities	90,000	110,000	120,000
Total	625,000	640,000	645,000

1.8 Upper limit for fixed interest rate exposure

Council will be requested to set an upper limit on its fixed interest rate exposures for 2013/14, 2014/15 and 2015/16 of 100% of its net outstanding principal sums.

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Council will be requested to set an upper limit on its variable interest rate exposures for 2013/14, 2014/15 and 2015/16 of 50% of its net outstanding principal sums.

The proposals to set upper and lower limits for the maturity structure of the Council's borrowings are as follows:

Table 9: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

Table 10: Upper limit for total principal sums invested for over 364 days

	2012/13	2013/14	2014/15
% of Investments with Maturity over 364 days	25%	25%	25%

The above indicator sets the exposure of investments in excess of 364 days at no more than 25% of the portfolio.