APPENDIX C (iii)

The Prudential Indicators for 2014-18

Introduction

1.0 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying capital appraisal systems.

1.1 Within this overall prudential framework there is an impact on the Authority's treasury management activity as it will directly impact on borrowing and investment activity. The Treasury Management Strategy for 2014/15 is included in section 7 of the annex to the report.

1.2 The Prudential Code requires the following matters to be taken into account when setting or revising the prudential indicators:

a) Service Objectives – e.g. strategic planning for the Authority
b) Stewardship of assets – e.g. asset management strategy
c) Value for money – e.g. options appraisal
d) Prudence and sustainability – e.g. implications of external borrowing
e) Affordability – e.g. impact on Council Tax
f) Practicality – e.g. achievability of the forward plan

1.3 Matters of affordability and prudence are primary roles for the Prudential Code.

1.4 The revenue consequences of capital expenditure, particularly unsupported capital expenditure, must to be paid for from the Authority's resources.

1.5 Capital expenditure can be paid for through capital receipts, grants etc, but if these resources are insufficient then any residual capital expenditure will add to the Authority's borrowing need.

1.6 The key risks to the plans are that the level of external funding has been estimated in some projects and therefore may change. Similarly some estimates for other sources of funding, such as capital receipt levels, may change as capital receipts are reliant on an active property market.

1.7 In total there are fifteen prudential indicators, covering:

- Affordability;
- Prudence;
- Capital expenditure;
- External debt; and
- Treasury management.

1.8 Prudential indicators are required to be set by full Council as part of the Financial Planning and Budget process. Any revisions must be reported through the financial management process.

1.9 The prudential indicators for the forthcoming and future years must be set before the beginning of the forthcoming year. They may be revised at any time, following due processes and must be reviewed, and revised if necessary, for the current year when the prudential indicators are set for the following year.

1.10 The following sets down the draft Prudential Indicators as calculated and proposed for North Tyneside Council for 2014–18. The indicators include those for the Housing Revenue Account.

<u>Prudential Indicators for Affordability</u>

1.11 The fundamental objective in considering affordability of the Authority's capital plan is to ensure that the total capital investment of the Authority remains within sustainable limits, and in particular to consider the impact on the "bottom line" and hence Council Tax and Housing rents. Affordability is ultimately determined by a judgement on acceptable Council Tax or rent levels.

1.12 In considering the affordability of its capital plans, the Authority is required to consider all the resources that are currently available, and estimated for the future, together with the totality of the capital plan, revenue income and revenue expenditure forecasts for the forthcoming year and following two years (as a minimum). The Authority is also required to consider known significant variations beyond this timeframe. This requires the development of rolling revenue forecasts as well as capital expenditure plans. In line with the current Financial Plan, four-year forecasts have been provided for the prudential indicators.

1.13 When considering affordability, risk is an important factor to be considered. Risk analysis and management strategies should be taken into account.

1.14 Looking ahead for a four year period, the following are key prudential indicators of affordability:

- Determining the ratio of financing costs to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services; and
- Determining the incremental impact on council tax and housing rents. The scope for increases in both these elements is governed by the Government's ability to limit increases.

After the year end:

- Calculate the actual ratio of financing costs to net revenue stream.

<u>Ratio of financing costs to net revenue stream</u>

1.15 This indicator calculates the estimated net finance costs for the year divided by the amounts to be met from government grants and local taxpayers for the non-

HRA element, and the total HRA income for the HRA element. The objective is to identify trends over time.

1.16 The figures used for the net revenue stream for 2014/15 onwards are dependent upon the General Fund and HRA revenue budgets which are to be agreed by Cabinet and full Council and are therefore subject to change.

The actual figures for 2012/13 are also set out in Table 1 below:

Table 1: Ratio of Financing Costs to Net Revenue Stream

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Est.	Est.	Est.	Est.	Est.
General Fund	13.32%	13.39%	16.24%	17.56%	18.53%	19.27%
HRA	22.93%	30.59%	27.54%	27.89%	32.76%	33.40%

1.17 The above indicator shows costs for all borrowing, both supported and unsupported. It also includes the financing costs of PFI schemes (including the estimated Housing Quality Homes for Older People PFI scheme) 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

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Est.	Est.	Est.	Est.	Est.
General Fund	6.75%	6.70%	8.56%	9.63%	10.61%	11.44%
HRA	3.94%	10.07%	4.35%	4.37%	6.61%	7.83%

1.18 Debt financing costs related to past and current capital programmes have been estimated in accordance with proper practices. Actual costs will depend on the phasing of capital expenditure and prevailing interest rates, and will be closely managed and monitored on an ongoing basis. Any reprogramming in the capital programme, whether planned or unplanned, may delay the impacts of debt financing costs to future years.

Incremental impact of new capital investment decisions on council tax and housing rents

Council Tax

1.19 This indicator represents an estimate of the incremental impact of new capital investment decisions on the annual Council Tax (Band D). It is intended to show the effect on Council Tax of approving the additional capital expenditure.

1.20 Revenue budget impacts may arise from the following:

- Interest from the use of external borrowing;
- Set aside of Minimum Revenue Provision (MRP);
- Revenue running costs or savings; and,
- Direct revenue contributions to capital expenditure

Table 3:Estimates of incremental impact of new capital investment decisions on Council Tax

	General Fund
2014/15	£6.05
2015/16	£26.46
2016/17	£34.19
2017/18	£55.99

1.21 These figures are notional and in practice the incremental costs of borrowing for the capital programme are incorporated into the calculations for the revenue budget build up along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Housing rents

1.22 This indicator represents an estimate of the incremental impact of new capital investment decisions on average weekly housing rents.

1.23 Revenue budget impacts may arise from the following:

- Direct revenue contributions to capital expenditure;
- Use of the Major Repairs Allowance (MRA);
- Interest from the use of external borrowing;
- Amounts set aside for the repayment of debt; and,
- Revenue running costs or savings.

Table 4:Estimates of incremental impact of new capital investment decisions on weekly housing rents

	HRA
2014/15	£6.80
2015/16	£3.64
2016/17	(£0.78)
2017/18	£1.37

1.24 These figures are notional and in practice the incremental costs of borrowing for the HRA capital programme are incorporated into the calculations for the HRA budget build up along with all other proposed budget increases and savings, and are considered as part of an overall package of affordability.

Prudential Indicators for Prudence

1.25 A key indicator of prudence is that, over the medium term, gross debt will only be used for a capital purpose. Under the Code the underlying need to borrow for a capital purpose is measured by the Capital Financing Requirement (CFR). Following changes to the CIPFA Prudential Code gross debt includes external borrowing and also other liabilities including PFI schemes and Finance Leases.

Gross debt and Capital Financing Requirement (CFR)

1.26 This key indicator is intended to show that gross debt does not, except in the short term, exceed the total CFR plus estimates of additional capital requirements for 2014/15 to 2017/18.

Table 5: Gross external debt less than CFR

	2014/15	2015/16	2016/17	2017/18
	£'000s	£'000s	£'000s	£'000s
External Borrowing	489,610	496,164	491,483	483,919
Other Liabilities (including PFI and Finance Leases)	88,663	120,898	126,638	122,908
Total Gross debt	578,273	617,062	618,121	606,827
Capital Financing requirement	617,385	649,537	650,634	639,542

Prudential Indicators for Capital Expenditure

Estimate of capital expenditure

1.27 This indicator requires reasonable estimates of the total capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

1.28 The Investment Plan for 2014-18 is included in section 6 table 17 of the annex and the figures below are based on that report. A full breakdown of individual schemes is shown in Appendix B(i).

Table 6: Capital Expenditure

	2014/15	2015/16	2016/17	2017/18
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
General Fund	42,166	20,686	17,920	10,158
HRA	23,936	25,427	24,303	24,731
Total	76,102	46,113	42,223	34,889

1.29 After the year end, the actual capital expenditure is calculated using the figures shown in the Financial Statements.

1.30 There is a real risk of cost variations to planned expenditure against the capital programme, arising for a variety of reasons, including tenders coming in over/under budget, changes to specifications, slowdown/acceleration of project phasing. There is also the possibility of needing to bring urgent and unplanned capital works into the capital programme. These risks are managed by project officers on an ongoing basis, by means of active financial and project monitoring, and will be overseen by the Capital Programme Management and Finance Group.

1.31 The availability of financing from capital receipts, grants and external contributions also carry significant risks. These risks are particularly relevant to capital receipts, where market conditions are a key driver to the flow of funds, causing problems in depressed or fluctuating market conditions.

Estimate of Capital Financing Requirement (CFR)

1.32 The CFR can be understood as the Authority's underlying need to borrow money long term for a capital purpose. The underlying need is the expenditure remaining to be financed after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions. It reflects the cumulative amount of borrowing required for capital purposes less the annual Minimum Revenue Provision (MRP).

1.33 In accordance with best professional practice the Authority does not associate borrowing with particular items or types of expenditure. The Authority has a number of daily cashflows, both positive and negative, and manages its Treasury position in terms of its borrowing and investments in accordance with the approved Treasury Management Strategy. In day to day cash management no distinction can be made between revenue cash and capital cash. Over the long term external borrowing may only be incurred for capital purposes.

1.34 The Authority is required to make reasonable estimates of the total CFR at the end of the forthcoming financial year and, as a minimum, the following two years. The HRA estimates must be shown separately.

1.35 The CFR has been calculated in line with the methodology required by the relevant statutory instrument and the guidance to the Prudential Code. It incorporates the actual and forecast borrowing impacts of the Authority's previous, current and future capital projects, current and future PFI programmes and current Finance Leases.

Table 7: Capital Financing Requirement

	2012/13 Actual £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's	2016/17 Est. £000's	2017/18 Est. £000's
General Fund	292,043	295,247	300,481	299,347	295,464	289,995
HRA	287,011	288,841	316,904	350,190	355,170	349,547
Total	**579,054**	**584,088**	**617,385**	**649,537**	**650,634**	**639,542**

1.36 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 8 below:

Table 8: Capital Financing Requirement for Unsupported Borrowing

	2012/13 Actual £000's	2013/14 Est. £000's	2014/15 Est. £000's	2015/16 Est. £000's	2016/17 Est. £000's	2017/18 Est. £000's
General Fund	124,130	134,173	145,962	150,747	152,429	152,347
HRA	43,593	39,693	38,943	37,823	35,063	31,173
Total	**167,723**	**173,866**	**184,905**	**188,570**	**187,492**	**183,520**

1.37 After the year end, the actual capital financing requirement and actual external borrowing are calculated from the Financial Statements.

Prudential Indicators for External Debt

Authorised limit for total external debt

1.38 For the purposes of this indicator the authorised limit for external debt is defined as the authorised limit for borrowing plus the authorised limit for other long term liabilities.

1.39 This indicator requires the Authority to set the forthcoming financial year and following years authorised limit for total external debt, separately identifying borrowing from other long term liabilities such as PFI and Finance Leases.

1.40 The authorised limit represents the maximum amount the Authority may borrow at any point in time in the year. It has to be set at a level the Authority considers is “prudent” and has to be consistent with the plans for capital expenditure and financing.

1.41 This limit is based on the estimate of the most likely, but not worse case, scenario with additional headroom to allow for operational management, for example unusual cash movements.

1.42 Full 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 Authority.

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

Table 9: Authorised Limit for External Debt

	2014/15 £000’s Est.	2015/16 £000’s Est.	2016/17 £000’s Est.	2017/18 £000’s Est.
Borrowing	1,070,000	1,070,000	1,060,000	1,050,000
Other Long Term Liabilities	120,000	150,000	157,000	153,000
Total	**1,190,000**	**1,220,000**	**1,217,000**	**1,203,000**

1.44 The Chief Finance Officer reports that these Authorised Limits are consistent with the Authority’s current commitments, existing plans and the proposals in this 2014/15 budget report for capital expenditure and financing, and in accordance with its approved Treasury Management Policy Statement and Practices.

Operational Boundary for total external debt

1.45 The proposed operational boundary is based on the same estimates as the authorised limit. However, it excludes the additional headroom which allows for unusual cash movements.

1.46 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 identified separately. Full 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.

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

Table 10: Operational Boundary for External Debt

	2014/15 £000's Est.	2015/16 £000's Est.	2016/17 £000's Est.	2017/18 £000's Est.
Borrowing	535,000	535,000	530,000	525,000
Other Long Term Liabilities	100,000	130,000	137,000	133,000
Total	**635,000**	**665,000**	**667,000**	**658,000**

1.48 At the end of the financial year, the closing balance for actual borrowing and other long term liabilities will be obtained from the Financial Statements.

HRA limit on indebtedness

1.49 Under the reforms of housing finance the Government published *Limits on Indebtedness Determination 2012* which set out the maximum amount of housing debt the Authority could have outstanding at any one time. The limit for North Tyneside was £290.824m. As explained in paragraph 9.2.4 of the annex this limit will be required to flex to allow headroom for the Quality Homes for Older People PFI scheme. Details of how this will take place are still to be determined by CLG, however, Table 11 below shows the assumed limit on the level of indebtedness following the flexing of the cap.

Table 11: HRA limit on indebtedness

	2014/15	2015/16	2016/17	2017/18
	Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
Assumed HRA limit on indebtedness	325,367	359,773	367,513	365,780
HRA capital financing requirement	316,904	350,190	355,170	349,547

<u>Prudential Indicators for Treasury Management</u>

<u>Adoption of the CIPFA Code of Practice for Treasury Management</u>

1.50 The Authority 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.

<u>Upper limits on interest rate exposure 2013/14 to 2015/16</u>

1.51 Full Council will be requested to set an upper limit on its fixed interest rate exposures for 2014/15, 2015/16, 2016/17 and 2017/18 of 100% of its net outstanding principal sums.

1.52 Full Council will be requested to set an upper limit on its variable interest rate exposures for 2014/15, 2015/16, 2016/17 and 2017/18 of 50% of its net outstanding principal sums.

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

Table 12: 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 to 2 years	50%	0%
2 years to 5 years	50%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	25%
20 years to 30 years	100%	25%
30 years to 40 years	100%	25%
40 years to 50 years	100%	25%

Table 13: Upper limit for total principal sums invested for over 364 days

	2014/15	2015/16	2016/17	2017/18
% of Investments with Maturity over 364 days	25%	25%	25%	25%

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