

Prudential Indicators & Treasury Indicators 2015/16

Council approved the Prudential Indicators and Treasury Indicators for 2015/16 on 4 March 2015. The following tables present proposed revisions to relevant indicators, which would require Council approval.

Prudential Indicator 1 – Capital Investment

Table 1 summarises the latest capital expenditure estimate for 2015/16, and the sources of financing the programme. Total expenditure was increased by Council on 4/3/15, without any increase in financing by borrowing; and at outturn £26,000 prudential borrowing for vehicle replacement was rephased from 2014/15.

It is recommended that Council should approve the increase in this Prudential Indicator, as presented in Table 1, to take account of the rephasing of expenditure and prudential borrowing from 2014/15.

Table 1 – Capital Expenditure	2015/16 Estimate £'000	Council 4/3/15 £'000	From 2014/15 £'000	2015/16 Revised £'000
Capital expenditure under Leisure Contract – treated as a finance lease (affects the CFR see Prudential Indicator 2 below)	437	0	0	437
Capital expenditure incurred directly by the Council	3,571	260	442	4,273
Less Capital resources - Capital receipts/Grants & Contributions/Revenue & reserves	(2,120)	(260)	(416)	(2,796)
Unfinanced amount (affects the CFR see Prudential Indicator 2 below)	1,451	0	26	1,477

Prudential Indicator 2 – Capital Financing Requirement (CFR)

The CFR is a measure of the Council's indebtedness resulting from its capital programme. It increases when the Council incurs unfinanced capital expenditure or leases liabilities. Its importance lies in the fact that it results in a charge to the revenue account, either from the lessor to discharge his debt, or an internal charge to make provision to finance the expenditure (the Minimum Revenue Provision - MRP).

It should be noted that this indebtedness does not result in the Council having an immediate need to take out additional borrowings. This is because the Council has various reserves, and the cash which supports those reserves can be used temporarily as internal borrowing instead of external borrowing. Table 3 shows that no external borrowing is planned in 2015/16.

The change to the estimated CFR as at 31/3/16 reflects changes to the financing of the 2014/15 capital programme previously reported, and the rephasing of the vehicle replacement programme. It is recommended that Council should approve the change to this Prudential Indicator, as presented in Table 2.

Table 2 – Capital Financing Requirement (CFR)	31/3/15 Actual £'000	31/3/16 Estimate £'000	Net Changes £'000	31/3/16 Revised £'000
Estimated CFR	5,171	6,194	107	6,301
Reasons for the annual change in the CFR				
Additional finance lease liability		437	0	437
Unfinanced capital expenditure (as above)		1,451	26	1,477
Repayment of finance lease		(316)	0	(316)
Annual revenue charge (MRP)		(468)	0	(468)

Prudential Indicators 5 & 6 – Borrowing and Investment Projections

As indicated in Table 3 below, no external borrowing is envisaged in 2015/16, because adequate cash balances are available to fund capital expenditure temporarily. The cost of doing so is the loss of the interest that would have been earned had the cash remained available for investment. However, the interest foregone is considerably less than the interest that would be payable if loans were obtained from the PWLB instead.

The peak of cash invested this year has exceeded the 2015/16 estimate by around £5m, and the average daily investment to date is around £8m higher than the figure quoted in the 2014/15 mid-year report. Cash balances generally reduce by year-end, but it is likely that the figure will exceed the estimate. It is recommended that Council should approve this revised Prudential Indicator, as presented in Table 3.

Table 3 – Borrowing and Investments	31/3/15 Revised £'000	Net Change £'000	31/3/15 Actual £'000	31/3/16 Estimate £'000	Estimated Change £'000	31/3/16 Revised £'000
Borrowing	0	0	0	0	0	0
Less surplus cash available for investment	(20,000)	(137)	(20,137)	(17,500)	(5,000)	(22,500)
Net borrowing	(20,000)	(137)	(20,137)	(17,500)	(5,000)	(22,500)

Prudential Indicator 8 – Operational Boundary for External Debt

The Council is required to set two limits on its external debt (i.e. the amounts it owes to lessors, and any amounts it borrows directly). The first is the Operational Boundary. This should reflect the most likely, but not worst case scenario consistent with the Council's budget proposals.

As shown in Table 3 above, it is not expected that additional external borrowings will be required in 2015/16. The proposed revised operational boundary therefore reflects the expected changes to finance leasing liabilities. It is recommended that Council should approve this revised Prudential Indicator, as presented in Table 4.

Table 4 – Operational Boundary	31/3/15 Revised £'000	Change 2014/15 £'000	31/3/15 Actual £'000	31/3/16 Estimate £'000	Change 2015/16 £'000	31/3/16 Revised £'000
Borrowings	0	0	0	0	0	0
Other long-term liabilities	903	108	1,011	1,024	108	1,132
Operational boundary	903	108	1,011	1,024	108	1,132

Prudential Indicator 9 – Authorised Limit

This is the second limit. It should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. This is achieved by allowing £2m for temporary borrowing in case of cash flow fluctuations, particularly at year-end. The change to the Authorised Limit reflects the change to Other long-term liabilities (finance leases) reported in Table 4 above. It is recommended that Council should approve this revised Prudential Indicator, as presented in Table 5.

Table 5 - Authorised Limit	31/3/15 Revised £'000	31/3/16 Estimate £'000	Change 2015/16 £'000	31/3/16 Revised £'000
Borrowings	2,000	2,000	0	2,000
Other long-term liabilities	903	1,024	108	1,132
Authorised limit	2,903	3,024	108	3,132

Treasury Indicator 1 – Upper limit on Variable rate exposure

The Council is exposed to interest rate movements on its invested cash. The amount varies significantly over the course of the year, and during each month. It was estimated that balances would peak at around £28m for short periods during 2015/16, but this figure has been exceeded. It is recommended that Council should approve this revised Prudential Indicator, as presented in Table 6.

Table 6 - Upper limit on variable rate exposure	2014/15 Revised £m	2014/15 Actual £m	2015/16 Estimate £m	Change in year £m	2015/16 Revised £m
Upper limit -	28.0	27.9	28.0	8.0	36.0