

**Prudential Code for Capital Finance in Local Authorities**  
**Prudential Indicators for 2012-13**

**1. Capital Expenditure**

The actual capital expenditure that was incurred in 2010-11 and the estimates of capital expenditure to be incurred for the current and future years are:

	2010-11 Actual £ million	2011-12 Revised £ million	2012-13 Estimate £ million	2013-14 Estimate £ million	2014-15 Estimate £ million
General Fund	3.841	3.666	3.228	2.738	2.808
Housing Revenue Account	5.139	4.500	7.154	8.480	10.100
<b>Total</b>	<b>8.980</b>	<b>8.166</b>	<b>10.382</b>	<b>11.218</b>	<b>12.908</b>

**2. Affordability**

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

	2010-11 Actual	2011-12 Revised	2012-13 Estimate	2013-14 Estimate	2014-15 Estimate
General Fund	-3%	-4%	-4%	-2%	-2%
Housing Revenue Account	0%	0%	28%	28%	28%

The negative figures reflect the Authority's General Fund position as a net investor, the interest earned being used to help fund the budget.

The other affordability indicator is the incremental impact of capital investment decisions on the council tax and on the average weekly housing rents and this is considered to be not applicable as capital expenditure is reducing on the General Fund and the increase in housing rents on the HRA is based on Government guidance and not on the amount of HRA capital expenditure.

**3. Capital Financing Requirement**

The capital financing requirement is capital expenditure which has not been fully financed from a local authority's own resources in the year but has been

covered by raising external or internal debt. As South Cambridgeshire is debt free (no external debt), its capital financing requirement is a negative £5.694 million for the year 2009-10; thereafter:

	31/03/11 Actual £ million	31/03/12 Revised £ million	31/03/13 Estimate £ million	31/03/14 Estimate £ million	31/03/15 Estimate £ million
Capital Financing Requirement	-3.899	201.354	201.087	200.720	200.453

The capital financing requirement falls due to financing internally part of the purchase of wheeled bins and cash overdrawn on equity share repurchases, but this financing is then partly repaid over the period.

A negative requirement means that the Council has defrayed more financing resources than it has capital expenditure. The requirement cannot presently be split between the General Fund and the Housing Revenue Account.

#### 4. External Debt

The proposals for HRA self financing will require the Council to take on external debt of around £205 million at the end of 2011/12.

The prudential indicators for external debt will be:

- i. Authorised limit

	2011-12 Estimate £ million	2012-13 Estimate £ million	2013-14 Estimate £ million	2014-15 Estimate £ million
Borrowing	212.5	212.5	212.5	212.5
Other Long Term Liabilities	0	0	0	0
Total	212.5	212.5	212.5	212.5

The authorised limit is the maximum limit consisting of HRA debt of £205 million and £7.5 million to take advantage of interest rate differentials and to meet immediate cash flow requirements. The authorised limit is the statutory affordable borrowing limit under Section 3(1) Local Government Act 2003.

Net borrowing is set out in the table below and one of the key indicators of prudence is that net debt is not in excess of the capital financing requirement:

	2011-12 Estimate £ million	2012-13 Estimate £ million	2013-14 Estimate £ million	2014-15 Estimate £ million
Borrowing	212.5	212.5	212.5	212.5
Investments	-15.0	-15.00	-15.0	-15.0
Net debt	197.5	197.5	197.5	197.5

Another indicator to highlight where an authority may be borrowing in advance of need is the ratio of the net debt to gross debt.

	2012-13	2013-14	2014-15
Net debt to gross debt	93%	93%	93%

ii. Operational boundary

The operational boundary for external debt is based on the same estimates as the authorised limit but reflects the most likely scenario and is expected to be £205 million for both borrowing and other long-term liabilities for each of the three years.

iii. Actual debt

The third indicator for external debt is actual debt at the end of the last financial year and was nil.

## 5. Maturity Structure of Borrowing

As the Council will only undertake a minimal amount of short-term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements and the HRA debt will be at fixed rates, the upper limits to be set for borrowing will be:

	Under 12 months	More than 12 months
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	100%	0%

## 6. Treasury Management

The Prudential Code requires the Authority to have adopted the CIPFA Code of Practice for Treasury Management in the Public Services: South Cambridgeshire has adopted this code.

i. Liquidity of Investments

The procedure for determining the maximum periods for which funds may be prudently committed is to formulate the five year investing plan. No investments will be made for more than five years. The prudential indicators for principal sums invested for periods longer than 364 days being the maximum limit shall be:

Investment period	Longer than 364 days but less than two years £ million	Longer than one year and 364 days but less than three years £ million	Longer than two year and 364 days but less than four years £ million	Longer than three year and 364 days but less than five years £ million
Maximum Limit	5	4	3	3

ii. Interest Rate Exposure

The Council will only undertake a minimal amount of short-term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements; the upper limits for interest rate exposures are based on gross investments. These upper limits for the forthcoming financial year and the following two financial years will be:

Upper limit on gross investments	2012-13	2013-14	2014-15
Fixed rate	100%	100%	100%
Variable rate	50%	50%	50%