

COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2016/17

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

1. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels. The Authority's planned capital expenditure and financing is summarised below. Further detail is provided in the Capital update which is being submitted to council on 16th November 2016.

Table 1

Capital Expenditure and Financing	Actual 2015/16 £M	Estimate 2016/17 £M	Forecast 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M
General Fund	37.1	111.2	98.5	50.3	1.5
HRA	38.8	58.9	81.8	38.9	25.4
Total Expenditure	75.9	170.1	180.3	89.2	26.9
Capital receipts	5.2	3.4	4.4	3.5	2.8
Capital Grants	23.7	31.2	29.3	11.8	0.0
Contributions	3.6	3.8	5.8	2.1	1.4
Council Resources	7.9	11.6	14.3	10.0	5.2
Major Repairs Allowance	19.8	19.9	19.9	20.3	16.2
Total Financing	60.2	69.9	73.7	47.7	25.6
Council Resources - borrowing	15.7	100.2	106.6	41.5	1.3
Total Funding	15.7	100.2	106.6	41.5	1.3
Total Financing & Funding	75.9	170.1	180.3	89.2	26.9

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The CFO reports that the Authority had no difficulty meeting this requirement in year nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of

its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below details our expected debt position and the year-on-year change to the CFR:

Table 2

	Actual 2015/16 £M	Approved 2016/17 £M	Forecast 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M
Borrowing	93.8	197.7	185.3	200.3	201.4
Finance leases and Private Finance Initiative	64.8	61.7	62.3	60.4	58.3
Transferred debt	15.3	14.9	14.9	14.6	14.2
Total General Fund Debt	173.9	274.3	262.5	275.3	273.9
HRA	155.0	168.3	196.7	197.4	191.8
Total	328.9	442.6	459.2	472.7	465.7

Table 3

Capital Financing Requirement	Actual 2015/16 £M	Approved 2016/17 £M	Forecast 2016/17 £M	Forecast 2017/18 £M	Forecast 2018/19 £M
General Fund	274.1	280.7	280.7	332.1	360.5
HRA	153.5	155.0	155.0	197.0	197.4
Balance Brought forward	427.6	435.7	435.7	529.1	557.9
Capital expenditure financed from borrowing (inc PFI)					
<i>General Fund (GF)</i>	9.7	75.7	59.2	35.2	1.3
<i>HRA</i>	6.0	24.5	47.4	6.3	0.0
HRA Voluntary Repayment of Debt	(5.2)	(5.2)	(5.6)	(5.6)	(5.6)
GF Revenue Provision for Repayment of Debt	0.0	(4.9)	(4.7)	(4.9)	(5.1)
Movement in Other Long term Liabilities	(2.4)	(2.8)	(2.9)	(2.2)	(2.4)
Capital Financing Requirement Carried Forward	435.7	523.0	529.1	557.9	546.1

3. Maturity Structure of Fixed Rate Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period. Maturity date is based on final payment date and not adjusted for equal instalment payments made in year.

Table 4

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 30/09/2016 £M	Average Fixed Rate as at 30/09/2016 %	% of Fixed Rate as at 30/09/2016 %	Compliance with set Limit?
Under 12 Months	0	45	9.0	3.06	4.50	Yes
Over 12 Months but within 24 Months	0	45	-			Yes
Over 24 Months but within 5 years	0	50	52.2	3.23	26.10	Yes
Over 5 years but within 10 years	0	75	-			Yes
10 years and above	0	75	138.8	3.83	69.40	Yes
			200.0	3.57	100.0	

Please note: the TM Code Guidance Notes (Page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

4. Ratio of Financing Costs to Net Revenue Stream

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. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income. The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the approved capital programme adjusted for actual borrowing made in year.

This indicator is not so relevant for the HRA, especially since the introduction of self financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Table 5

Ratio of Financing Costs to Net Revenue Stream	Actual 2015/16	Approved 2016/17	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	%	%	%	%	%
General Fund	5.80%	8.47%	6.64%	7.45%	8.24%
HRA	14.07%	14.12%	14.84%	14.56%	14.91%
Total	9.18%	11.18%	10.18%	10.60%	11.33%

5. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the authority adopted the principles of best practice.

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management Code* on 19 February 2003 and has subsequently agreed further updates.

6. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing.

Table 6

HRA Summary of Borrowing	Actual 2015/16	Approved 2016/17	Forecast 2016/17	Forecast 2017/18	Forecast 2018/19
	£M	£M	£M	£M	£M
Brought Forward	153.5	174.6	155.0	196.7	197.4
Maturing Debt	(5.1)	(5.2)	(5.6)	(5.6)	(5.6)
Appropriation from General Fund	0.6				
New Borrowing	6.0	24.5	47.3	6.3	
Carried Forward	155.0	193.9	196.7	197.4	191.8
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	44.6	5.7	2.9	2.2	7.8

7. Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available within a rolling three month period with the view of looking to borrow short term if cash available in instant access accounts falls below £20M.

8. Summary

As indicated in this report none of the Prudential Indicators have been breached.