

## Appendix C - Prudential Indicators

The Local Government Act 2003 requires the Council to have regard to CIPFA'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 Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

### Capital Financing Requirement (CFR)

Estimates of the Council's cumulative maximum external borrowing requirement for 2016/17 to 2019/20 are shown in the table below:

	<b>31/03/17 Actual £M</b>	<b>31/03/18 Estimate £M</b>	<b>31/03/19 Estimate £M</b>	<b>31/03/20 Estimate £M</b>
General Fund CFR	359.4	377.9	402.0	414.6
HRA CFR	165.0	163.5	162.0	159.1
<b>Gross CFR</b>	<b>524.4</b>	<b>541.4</b>	<b>564.0</b>	<b>573.7</b>
Less: PFI liabilities *	(17.2)	(16.6)	(15.8)	(15.2)
<b>Borrowing CFR</b>	<b>507.2</b>	<b>524.8</b>	<b>548.2</b>	<b>558.5</b>
External borrowing	(347.9)	(407.1)	(432.8)	(454.1)
Internal borrowing:				
- Usable Reserves	(102.7)	(92.7)	(90.4)	(79.4)
- Working capital	(56.6)	(25.0)	(25.0)	(25.0)
<b>Total</b>	<b>(507.2)</b>	<b>(524.8)</b>	<b>(548.2)</b>	<b>(558.5)</b>

\* PFI liabilities that form part of the Council's debt which includes an upward restatement in 2016/17

The Gross CFR is forecast to rise by £49.3M over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Following the external audit of the 2015/16 accounts the longstanding model used to calculate PFI contract related entries within the Council's accounts was restated. As reported to the 26<sup>th</sup> September 2016 Audit Committee agenda item 8, the PFI financial liability (short and long term) disclosed in the accounts of £15.733M had been understated by £1.929M and the unusable Capital Adjustment Account Reserve of £550.790M had been overstated by the same amount. There is no financial impact on either the Council's General Fund or the two academy schools who use the PFI funded facilities. The difference was not adjusted in 2015/16 on the grounds that the change would not materially impact on the presentation of the Council's financial position at 31<sup>st</sup> March 2016. It was agreed with external audit that the adjustment would be made in the year ended 31<sup>st</sup> March 2017.

## Gross Debt and the Capital Financing Requirement

The Prudential Code states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the Capital Financing Requirement (CFR) such that any deviation is reported, since any such deviation may be significant and should lead to further investigation and action as appropriate.

In order to ensure that over the medium term debt will only be for a capital purpose, the Council 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. This is a key indicator of prudence.

The Council has had no difficulty meeting this requirement nor are any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	<b>31/03/17 Actual £M</b>	<b>31/03/18 Estimate £M</b>	<b>31/03/19 Estimate £M</b>	<b>31/03/20 Estimate £M</b>
Capital Financing Requirement	524.4	541.4	564.0	573.7
Gross Debt	365.1	423.7	448.6	469.3
<b>Difference</b>	<b>159.3</b>	<b>117.7</b>	<b>115.4</b>	<b>104.4</b>
<b>Borrowed in excess of CFR? (Yes/No)</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>

## Authorised Limit and Operational Boundary for External Debt

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. This is a statutory limit which should not be breached. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

The Operational Boundary is based on the Council's estimate of most likely, i.e., prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the Capital Financing Requirement (CFR) and cash flow requirements, and is a key management tool for in-year monitoring. Other long term liabilities comprise finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

The Chief Finance Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year.

	<b>Authorised Limit (Approved) 2016/17 £M</b>	<b>Operational Boundary (Approved) 2016/17 £M</b>	<b>Actual External Debt as at 31/03/2017 £M</b>
Borrowing	538.3	528.3	347.9
Other Long-term Liabilities	18.7	18.2	17.2
<b>Total</b>	<b>557.0</b>	<b>546.5</b>	<b>365.1</b>

## Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Approved Limits for 2016/17</b>	<b>Maximum during 2016/17</b>
Upper Limit for Fixed Rate Exposure	100%	73%
<b>Compliance with Limits</b>	<b>Yes</b>	<b>Yes</b>
Upper Limit for Variable Rate Exposure	50%	37%
<b>Compliance with Limits</b>	<b>Yes</b>	<b>Yes</b>

## Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual Fixed Rate Borrowing as at 31/03/2017 %</b>	<b>Compliance with Set Limits?</b>
Under 12 months	20	0	0	<b>Yes</b>
12 months and within 24 months	20	0	0	<b>Yes</b>
24 months and within 5 years	60	0	0	<b>Yes</b>
5 years and within 10 years	100	0	36	<b>Yes</b>
10 years and within 15 years	100	0	21	<b>Yes</b>
15 years and within 20 years	100	0	15	<b>Yes</b>
20 years and above	100	0	28	<b>Yes</b>

(The 2011 revision to the CIPFA Treasury Management Code requires the Prudential Indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e., the next call date).

## Capital Expenditure

The Council needs 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 Council's actual and planned capital expenditure and financing can be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2016/17 Actual £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>	<b>2019/20 Estimate £M</b>
General Fund	103.0	95.0	91.0	96.9
HRA	10.2	14.6	22.3	21.9
<b>Total Expenditure</b>	<b>113.2</b>	<b>109.6</b>	<b>113.3</b>	<b>118.8</b>
Capital receipts	(6.9)	(12.0)	(10.0)	(10.0)
Grants and Contributions	(42.4)	(43.0)	(46.4)	(63.5)
Revenue contributions	(3.5)	-	-	-
Minimum Revenue Provision (MRP) / PFI	(1.6)	(9.5)	(10.3)	(10.7)
Borrowing	(48.6)	(30.5)	(24.3)	(12.7)
<b>General Fund sub-total</b>	<b>(103.0)</b>	<b>(95.0)</b>	<b>(91.0)</b>	<b>(96.9)</b>
Capital receipts	(3.4)	(4.0)	(4.7)	(10.2)
Reserves	(4.6)	(6.2)	(14.5)	(11.4)
Revenue contributions	(2.2)	(2.3)	(2.1)	-
Grants and Contributions	-	(2.1)	(1.0)	(0.3)
<b>HRA sub-total</b>	<b>(10.2)</b>	<b>(14.6)</b>	<b>(22.3)</b>	<b>(21.9)</b>
<b>Total Financing</b>	<b>(113.2)</b>	<b>(109.6)</b>	<b>(113.3)</b>	<b>(118.8)</b>

## 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 financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2016/17 Actual %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
General Fund	5.3	6.6	7.0	7.4
HRA	13.2	13.7	13.7	13.7

It measures the proportion of the revenue budget that is required to meet the ongoing financing costs of past capital expenditure which was funded from borrowing. Future year estimates incorporate the additional financing costs of planned capital expenditure to be funded from borrowing. It is important that the total capital investment of the Council remains within sustainable limits. However, the level of capital investment that can be supported will be a matter for local decision.

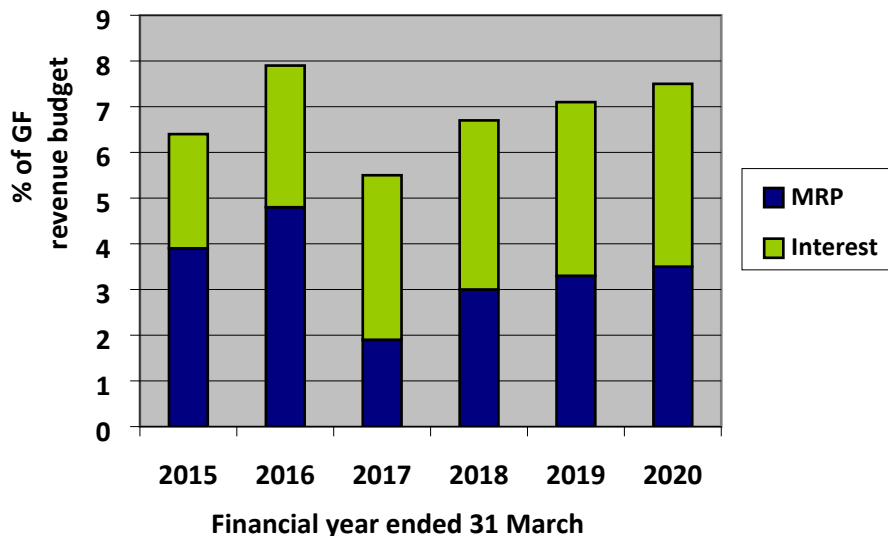
The Prudential Indicators are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparable performance indicators. Nonetheless, it is interesting to note that Central Bedfordshire's Ratio of Financing Costs to Net Revenue Stream (General Fund) is lower than most of its nearest local authority neighbours due, in part, to the recent change in methodology for calculating the Council's Minimum Revenue Provision (MRP):

	2015/16	2016/17
Milton Keynes	11.2%	9.7%
Luton	8.2%	9.4%
Northamptonshire	7.1%	7.4%
Cambridgeshire	9.2%	7.0%
Buckinghamshire	5.5%	6.5%
<b>Central Bedfordshire</b>	<b>7.9%</b>	<b>5.3%</b>
Bedford Borough	5.6%	5.1%

\* Comparative figures are based on estimates for 2015/16 and 2016/17 sourced from each local authority's treasury management strategy published on the internet.

Central Bedfordshire's ratio is expected to increase relative to its peers given the Council's significant commitment to capital investment over the next few years.

The impact of the recent change in methodology for calculating the Council's Minimum Revenue Provision (MRP) is shown by the reduction in 2016/17 relative to previous years. However, the growing impact of borrowing to fund new capital expenditure is illustrated from 2016/17 onwards, with MRP and interest costs taking up an increasingly greater proportion of the Council's net revenue budget over time:



The Council will need to carefully consider this increasing cost when determining its future plans for capital expenditure.

### **Adoption of the CIPFA Treasury Management Code**

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in November 2012.

### **Upper Limit for Total Principal Sums Invested Over 364 Days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

<b>Upper limit for total principal sums invested over 364 days</b>	<b>2016/17 Approved Limit £M</b>	<b>2016/17 Actual £M</b>	<b>2017/18 Approved Limit £M</b>	<b>2018/19 Approved Limit £M</b>	<b>2019/20 Approved Limit £M</b>
	<b>10.0</b>	<b>0.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

### **Housing Revenue Account (HRA) Debt**

The purpose of this limit is to report the level of debt imposed on the Council at the time of the implementation of self-financing by the Department for Communities and Local Government (CLG).

	<b>2016/17 Actual £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>	<b>2019/20 Estimate £M</b>
HRA Debt Cap (as prescribed by CLG)	165.0	165.0	165.0	165.0
HRA CFR	165.0	163.5	162.0	159.1
<b>Difference</b>	<b>0.0</b>	<b>(1.5)</b>	<b>(3.0)</b>	<b>(5.9)</b>

It should be noted that the HRA's Business Plan includes provision for the repayment of debt with effect from 2017/18.