

## PRUDENTIAL INDICATORS FOR MTFP 2017/18 to 2020/21

### 1 Background

**1.1.** The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

**1.2.** Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

**1.3.** The purpose of this report is to update and revise the indicators approved by Council last year contained within the MTFP for 2017/18 to 2020/21. The report describes the purpose of each of the indicators and the proposed values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place throughout the year and a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

### 2 Capital Expenditure Indicators

#### 2.1. Capital Expenditure

This indicator is required to inform the Council of capital spending plans for the next four years. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

The estimates of gross capital expenditure to be incurred for the current and future years is summarised below:

*Table 2.1.1 Capital Expenditure 2017/18-2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	2017/18	2018/19	2019/20	2020/21
Estimates of capital expenditure	£000	<b>77,713</b>	90,837	124,909	69,553	46,860

The Approved estimate of capital expenditure for 2017/18 has been updated to reflect the revised budget (inclusive of carry forwards) as reported to Cabinet in June 2017. The forecast outturn shows an anticipated £13.1m (14.4%) underspend on the revised capital expenditure budget for the year. The main reasons for this are the cancelled project at

Orchard House (£4.8m), planning delays in delivering school places (£3.7m), a review of the need for a third lift at NCO (£1.7m), delays in a number of environmental projects (£1.0m), delays caused by a lack of specialist contractor availability in addressing some Health and Safety issues (non-urgent) (£0.5m) and a variety of smaller items.

The estimate of capital expenditure for 2018/19 to 2020/21 does not reflect any proposed changes as part of the 2017/18 MTFP process.

*Table 2.1.1 Capital Expenditure 2017/18-2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Estimates of capital expenditure	£000	82,680	124,909	69,553	46,860

## **2.2. Capital Financing Requirement**

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 6.3 and 6.4). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

*Table 2.2.1 Capital Financing Requirement 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	2017/18	2018/19	2019/20	2020/21
Estimates of capital financing requirement (CFR)	£000	<b>357,806</b>	357,806	354,598	352,969	350,339

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council.

As a result of slippage in the capital programme the amount that has been required to be borrowed has reduced a little from that anticipated at the time of setting the indicators in February 2017. This may, however, increase again if further investment properties are purchased and funded from borrowing.

*Table 2.2.2 Capital Financing Requirement 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Estimates of capital financing requirement (CFR)	£000	359,424	355,980	354,326	351,672

### 3 Affordability Indicators

#### 3.1 Ratio of Financing Costs to Net Revenue Stream

##### Purpose of the Indicator

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

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

*Table 3.1.1 Ratio of Financing Cost to Net Revenue Stream 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Estimates of ratio of financing costs to net revenue stream	%	4.9%	4.9%	4.8%	4.5%	4.3%

There are no significant variations to this indicator since it was agreed by Council in February.

*Table 3.1.2 Ratio of Financing Cost to Net Revenue Stream 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Estimates of ratio of financing costs to net revenue stream	%	4.9%	4.8%	4.5%	4.3%

### **3.2 Estimates of Incremental Impact of New Capital Investment Decisions on Council Tax**

This is a key affordability indicator that demonstrates the incremental effect of planned capital expenditure and hence any increased or decreased borrowing, on Council Tax.

*Table 3.2.1 Incremental impact of new Capital investment on Council Tax 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Estimates of the incremental impact of capital investment decisions on Council Tax	£	-£9.27	-£9.25	-£0.79	-£2.14	-£0.44
	%	-0.76%	-0.76%	-0.06%	-0.16%	0.03%

The forecast impact on Council Tax has only changed very marginally as a consequence of delays in the delivery of the capital programme.

The estimate of capital expenditure for 2018/19 to 2020/21 does not reflect any proposed changes as part of the MTFP process currently underway.

*Table 3.2.2 Incremental impact of new Capital investment on Council Tax 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Estimates of the incremental impact of capital investment decisions on Council Tax	£	-£9.25	-£0.81	-£2.14	-£0.44
	%	-0.76%	-0.06%	-0.16%	-0.03%

## **4 Financial Prudence Indicator**

### **4.1. Gross Debt and the Capital Financing Requirement ('CFR')**

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy. The figures for 2017/18 onwards are based on estimates:

*Table 4.1.1 Gross Debt and the CFR 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Gross Borrowing	£000	<b>340,000</b>	340,000	330,000	320,000	310,000
Capital Financing Requirement	£000	<b>357,806</b>	357,806	354,598	352,969	350,339

A further increase in gross borrowing was agreed for 2017/18 to allow greater headroom for the Council to invest in commercial properties. The authorised limit for 2018/19 onwards has been reduced to reflect the fact that it is anticipated that the Council will not need to replace debt repaid.

The actual external borrowing as at 31 March 2017 was £224.3m which includes £1.1m accrued interest. During 2017/18 £11.7m of PWLB debt will be repaid. Approximately £25m new borrowing from the PWLB will be taken out prior to completion of investment in a Commercial property. The Council pre-paid a £4m LOBO loan and will consider other prepayment options as they arise. Temporary borrowing amounts have ranged from £30m to £70m depending on cash flow requirements. The mix of temporary and fixed rate borrowing will continue to be reviewed in line with advice from our Treasury advisors.

*Table 4.1.2 Gross Debt and the CFR 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Gross Borrowing	£000	340,000	330,000	320,000	310,000
Capital Financing Requirement	£000	359,424	355,980	354,326	351,672

## 5 Treasury and External Debt Indicators

### 5.1 Authorised Limit for External Debt

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

*Table 5.1.1 Authorised limit for external debt 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Authorised limit (for borrowing) *	£000	<b>350,000</b>	350,000	340,000	330,000	330,000
Authorised limit (for other long term liabilities) *	£000	<b>9,000</b>	9,000	10,000	10,000	10,000
Authorised limit (for total external debt) *	£000	<b>359,000</b>	359,000	350,000	340,000	340,000

\* These limits can only be changed with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements. The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Director of Finance and Assets will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit.

The authorised limit of £350m agreed for 2017/18 allows headroom for the Council to invest in commercial properties. The authorised limit for 2018/19 onwards has been reduced to reflect the fact that it is anticipated that the Council will not need to replace debt repaid.

*Table 5.1.2 Authorised limit for external debt 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Authorised limit (for borrowing) *	£000	350,000	340,000	330,000	330,000
Authorised limit (for other long term liabilities) *	£000	9,000	10,000	10,000	10,000

Authorised limit (for total external debt) *	£000	359,000	350,000	340,000	340,000
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## 5.2 Operational Boundary for External Debt

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

*Table 5.2.1 Operational Boundary for External Debt 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Operational boundary (for borrowing)	£000	<b>320,000</b>	320,000	310,000	300,000	300,000
Operational boundary (for other long term liabilities)	£000	<b>7,500</b>	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	<b>327,500</b>	327,500	317,500	307,500	307,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice document. It will be reviewed on an on-going basis, the operational boundary allows the Council to borrow up to invest in new assets which will generate an income stream in excess of any borrowing costs.

*Table 5.2.2 Operational Boundary for External Debt 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Operational boundary (for borrowing)	£000	320,000	310,000	300,000	300,000
Operational boundary (for other long term liabilities)	£000	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	327,500	317,500	307,500	307,500

### 5.3 Actual External Debt

This is a factual indicator showing actual external debt for the previous financial year.

The actual external borrowing as at 31 March 2017 was £224.3m which includes £68.7m from the PWLB, £82m LOBO loans, £72.5m temporary borrowin from other local authorities and £1.1m accrued interest. During 2017/18 £11.7m of PWLB debt will be repaid. Approximately £25m new borrowing from the PWLB will be taken out prior to completion of investment in a Commercial property. The Council pre-paid a £4m LOBO loan and will consider other prepayment options as they arise. Temporary borrowing amounts have ranged from £30m to £70m depending on cash flow requirements. The mix of temporary and fixed rate borrowing will continue to be reviewed in line with advice from our Treasury advisors.

## 6 **Treasury Management Indicators**

The prudential code links with the existing CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicators consist of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

### 6.1 Security Average Credit Rating

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

*Table 6.1.1 Security Average Credit Rating 2017/18*

Security Average Credit Rating	Actual / Target
Portfolio Average Credit Rating	AA- / A+ or above

For the purpose of this indicator, local authorities which are unrated are assumed to hold an AAA rating.

*Table 6.1.2 Security Average Credit Rating 2017/18 approved by Council on 16 February 2017*

Security Average Credit Rating	Target
Portfolio Average Credit Rating	A+ or above

### 6.2 Has the Council adopted the CIPFA Treasury Management Code?

The Council has adopted the Code. In line with the Code the Treasury Strategy is reported to Regulatory and Audit Committee and Council.

*Table 6.2.1 The CIPFA Treasury Management Code 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes

*Table 6.2.2 The CIPFA Treasury Management Code 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes

### **6.3 Upper Limit of Fixed Rate Borrowing for the 4 Years to 2020/21**

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

*Table 6.3.1 Upper Limit of Fixed Rate Borrowing 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Fixed interest rate exposure - upper limit *	£000	350,000	350,000	340,000	330,000	330,000

\* Any breach of these limits will be reported to the full Council

*Table 6.3.2 Upper Limit of Fixed Rate Borrowing 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Fixed interest rate exposure - upper limit *	£000	350,000	340,000	330,000	330,000

## 6.4 Upper Limit of Variable Rate Borrowing for the 4 Years to 2020/21

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount will be:

*Table 6.4.1 Upper Limit of Variable Rate Borrowing 2017/18 – 2020/21*

Indicator	Unit	Revised Estimate 2017/18 as at 30 Sept 2017	Approved Estimate 2017/18	2018/19	2019/20	2020/21
Variable interest rate exposure - upper limit *	£000	225,000	225,000	160,000	170,000	160,000

\* Any breach of these limits will be reported to the full Council

Arlingclose, the Council's treasury advisor, advised that with short-term interest rates much lower than long-term rates, it was likely to be more cost effective in the short-term to borrow short-term loans instead of long-term loans. Instruments that mature during the year are classed as variable.

*Table 6.4.2 Upper Limit of Variable Rate Borrowing 2017/18 – 2020/21 approved by Council on 16 February 2017*

Indicator	Unit	2017/18	2018/19	2019/20	2020/21
Variable interest rate exposure - upper limit *	£000	225,000	160,000	170,000	160,000

## 6.5 Maturity Structure of Fixed Rate Borrowing

This Indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of the fixed borrowing will be:

*Table 6.5.1 Maturity Structure of Fixed Rate Borrowing 2017/18*

Maturity Structure of Fixed Rate Borrowing	Revised Estimate 2017/18 as at 30 Sept 2017		Approved Estimate 2017/18	
	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	80%	0%	80%	0%
12 months and within 24 months	50%	0%	50%	0%

24 months and within 5 years	55%	0%	55%	0%
5 years and within 10 years	80%	0%	80%	0%
10 years and above	100%	20%	100%	20%

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

*Table 6.5.2 Maturity Structure of Fixed Rate Borrowing for 2017/18 approved by Council on 16 February 2017*

Maturity Structure of Fixed Rate Borrowing	2017/18	
	Upper Limit	Lower Limit
Under 12 months	80%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	55%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	20%

## **6.6 Total Principal Sums Invested for Periods Longer than 364 Days**

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

*Table 6.6.1 Total Principal Sums Invested for Periods Longer than 364 Days 2017/18 to 2020/21*

<b>Indicator</b>	<b>Unit</b>	<b>Revised Estimate 2017/18 as at 30 Sept 2017</b>	<b>Approved Estimate 2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Total principal sums invested for periods longer than 364 days	£m	<b>£10m</b>	£10m	£20m	£20m	£20m

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £10m in 2017/18 and £20m in 2018/19 to 2020/21. Cash balances are anticipated to be low due to financing the EfW project.

*Table 6.6.2 Total Principal Sums Invested for Periods Longer than 364 Days 2017/18 to 2020/21 approved by Council on 16 February 2017*

<b>Indicator</b>	<b>Unit</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Total principal sums invested for periods longer than 364 days	£m	£10m	£20m	£20m	£20m

## **7 Conclusion**

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.