Appendix 1

PRUDENTIAL INDICATORS FOR 2018/19

1 Background

1.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003 and the Local Authorities (Capital Finance and accounting) Regulations 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 report the outturn position for the indicators approved by Council last year for 2018/19. The report describes the purpose of each of the indicators. 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. 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.

Gross capital expenditure for 2018/19 is summarised below:

Table 2.1 Capital Expenditure

Indicator	Unit	Budget 2018/19	Actual 2018/19	Underspend	
		£000	£000	£000	%
Estimates of capital expenditure	£000	206,574	**184,255**	- 22,319	-10.8%

The Capital Programme has underspent by £22.3m (10.8%) on the revised capital expenditure budget for the year. Notably there is slippage on:

- Waterside North Development (£1.7m)
- Technology Projects (£3.3m)
- Aylesbury Study Centre(£1.2m)
- Adult Social Care respite currently under review (£3m)
- Children’s Social Care purchase of homes (£1.6m)

- Primary and Secondary School Places (£1.8m)
- Abbey View and Green Ridge projects (£1.2m)
- Growth & Strategy Developer Funded Schemes (£1.152m)
- Growth & Strategy LEP funded schemes including South East Aylesbury Link Road (£4.1m) and A4 Sustainable Travel Scheme (£1.8m)

However, within Education & Skills there is offsetting overspend variance due to accelerated spend on St Michael's, Aylesbury (£4.7m) and Primary and Secondary schemes (£2.0m).

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). The end of year Capital Financing Requirement for the Council for 2018/19, net of repayments, is:

Table 2.2 Capital Financing Requirement

Indicator	Unit	Actual 2018/19	Original Approved 2018/19
Estimates of capital financing requirement (CFR)	£000	**470,609**	401,531

The actual capital financing requirement is higher than the original approved due to Cabinet approvals for borrowing to finance in-year commercial acquisitions.

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 the acquisition of two investment properties the amount that has been required to be borrowed in 2018/19 has increased compared to that anticipated at the time of setting the indicators in February 2018.

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 Ratio of Financing Cost to Net Revenue Stream

Indicator	Unit	Actual 2018/19	Approved 2018/19
Estimates of ratio of financing costs to net revenue stream	%	4.9%	4.8%

There are no significant variations to this indicator since it was agreed by Council in February 2018.

4 Financial Prudence Indicator

4.1. <u>Gross Debt and the Capital Financing Requirement ('CFR')</u>

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.

Table 4.1 Gross Debt and the CFR

Indicator	Unit	Final Approved Limit 2018/19	Revised Approved Limit 2018/19 22 Nov 18	Approved Limit 2018/19 22 Feb 18
Gross Borrowing	£000	**390,000**	390,000	330,000
Capital Financing Requirement	£000	**470,609**	401,531	401,531

The actual external borrowing as at 31 March 2019 was £296.2m which includes £2.7m accrued interest. During 2018/19 £12.6m of PWLB debt was repaid and £106m new borrowing from the PWLB was taken out, £76m for the purchase of two investment properties and £30m to optimise overall cash balances in line with the Council's treasury management strategy. The Council pre-paid a £48m LOBO loan and replaced it with £48m of new PWLB borrowing. Temporary borrowing amounts have ranged from £20m to £45m depending on cash flow requirements. The mix of temporary and fixed rate borrowing continues to be reviewed in line with advice from our Treasury advisors.

Full Council approved in November 2018 an increase from £330m to £390m to enable the Council to further invest in Commercial properties to provide additional revenue income in 2018/19,and also correct an anomaly between the 4.1 and 5.1 indicators approved in February 2018.

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 Authorised limit for external debt

Indicator	Unit	Final Approved Limit 2018/19	Revised Approved Limit 2018/19 22 Nov 18	Approved Limit 2018/19 22 Feb 18
Authorised limit (for borrowing) *	£000	**390,000**	390,000	340,000
Authorised limit (for other long term liabilities) *	£000	**10,000**	10,000	10,000
Authorised limit (for total external debt) *	£000	**400,000**	400,000	350,000

* 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 Procurement will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit. The Council agreed an increase of £50m to the authorised limit for borrowing in November 2018 to potentially invest further in commercial properties.

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 Operational Boundary for External Debt

Indicator	Unit	Final Approved Limit	Revised Approved Limit	Approved Limit 2018/19

		2018/19	2018/19 22 Nov 18	22 Feb 18
Operational boundary (for borrowing)	£000	**360,000**	360,000	310,000
Operational boundary (for other long term liabilities)	£000	**7,500**	7,500	7,500
Operational boundary (for total external debt)	£000	**367,500**	367,500	317,500

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. An increase of £50m was approved by Council in November following the £50m increase to the authorised limit for borrowing

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 2019 was £296.2m which includes £2.7m accrued interest. During 2018/19 £12.6m of PWLB debt was repaid and £106m new borrowing from the PWLB was taken out, £76m for the purchase of two investment properties and £30m to optimise overall cash balances in line with the Council's treasury management strategy. The Council pre-paid a £48m LOBO loan and replaced it with £48m of new PWLB borrowing. Temporary borrowing amounts have ranged from £20m to £45m depending on cash flow requirements. The mix of temporary and fixed rate borrowing continues 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 Security Average Credit Rating

Security Average Credit Rating	Actual 2018/19	Approved 2018/19
Portfolio Average Credit Rating	A+	A+ or above

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

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 The CIPFA Treasury Management Code

Indicator	Unit	Actual 2018/19	Approved 2018/19
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes

6.3 Upper Limit of Fixed Rate Borrowing

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 Upper Limit of Fixed Rate Borrowing

Indicator	Unit	Final Approved Limit 2018/19	Revised Approved Limit 2018/19 22 Nov 18	Approved Limit 2018/19 22 Feb 18
Fixed interest rate exposure - upper limit *	£000	390,000	390,000	340,000

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

An increase of £50m was approved by Council in November following the £50m increase to the authorised limit for borrowing.

6.4 Upper Limit of Variable Rate Borrowing

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 Upper Limit of Variable Rate Borrowing

Indicator	Unit	Final Approved Limit 2018/19	Approved Limit 2018/19 22 Feb 18
Variable interest rate exposure - upper limit *	£000	160,000	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.

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

Maturity Structure of Fixed Rate Borrowing	Limit 2018/19		Approved Limit 2018/19	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	40%	0%	40%	0%
12 months and within 24 months	50%	0%	50%	0%
24 months and within 5 years	50%	0%	50%	0%
5 years and within 10 years	75%	0%	75%	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.

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 Total Principal Sums Invested for Periods Longer than 364 Days

Indicator	Unit	Actual 31 March 2019	Approved Limit 2018/19
Total principal sums invested for periods longer than 364 days	£m	**£0m**	£20m

Cash balances are anticipated to continue to be low.

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.