Schedule C

PRUDENTIAL INDICATORS FOR MTP 2014/15 to 2017/18

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 proposed MTP for 2014/15 to 2017/18. 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 through out 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:

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Estimates of capital expenditure	£000	78,570	112,695	73,073	63,721	233,389	36,646

The 2013/14 estimates reflect the forecast gross capital expenditure against the revised budgets to the end of December 2014.

The estimate of capital expenditure for 2014/15 to 2017/18 reflects the capital programme within the MTP. In 2016/17 the programme includes an allowance for the Energy from Waste plant, which will be supported in part through prudential borrowing.

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 5.3). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Estimates of capital financing requirement (CFR)	£000	220,151	211,743	219,660	212,523	334,936	324,774

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. The profile above reflects:

- Prudential borrowing of £16m in 2014/15 as the accountable body on behalf of the LEP to support Transportation projects;
- Prudential borrowing of £1.4m in 2015/16 to support the capital programme;
- An allowance for prudential borrowing of £130m in 2016/17 that may be required to be undertaken as part of the Energy from Waste (EfW) Project.

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:

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Estimates of ratio of financing costs to net revenue stream	%	6.4%	6.3%	6.02%	5.93%	6.68%	6.99%

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.

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Estimates of the incremental impact of capital investment decisions on Council Tax	£	-£0.25	-£0.09	-£8.05	-£7.78	-£9.75	-£17.85
	%	-0.02%	-0.01%	-0.73%	-0.69%	-0.69%	-1.53%

The delivery of a number of projects within the capital programme including the replacement of Street Lamps with more efficient equipment, introduction of a bio-waste treatment facility and rationalisation of premises will result in revenue savings. In addition a net saving is forecast in relation to the Energy from Waste project.

4. FINANCIAL PRUDENCE INDICATOR

4.1. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

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 two 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 2014/15 onwards are based on estimates:

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Gross Borrowing	£000	193,928	188,200	205,000	205,000	205,000	195,000
Capital Financing Requirement	£000	220,151	211,743	219,660	212,523	334,936	324,774

The above figures show that during the next 4 years gross external borrowing in Buckinghamshire may temporarily exceed the capital financing requirement.

The Council is committed to building an EfW plant. This may require additional borrowing during 2016/17, although in practice much of this may be financed through a combination of earmarked reserves and current cash investments. The gross borrowing indicator assumes borrowing £10m per annum in advance during 2014/15 and 2015/16 and a further £10m during 2016/17. The need for borrowing in advance will be reviewed.

The indicator also includes £16m in 2014/15 borrowed on behalf of the Buckinghamshire Thames Valley Local Enterprise Partnership (BTVLEP) for Aylesbury Eastern Link Road and High Wycombe Town Centre Transport Projects. HM Treasury has agreed that the LEP can access the PWLB Project Rate at a discount of 40 basis points below the standard PWLB rate, the County Council will arrange the loan and pay the interest to the PWLB on behalf of the LEP, the LEP will reimburse the costs incurred to the County Council so that the loan is cost neutral to the County Council.

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.

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Authorised limit (for borrowing) *	£000	250,000	250,000	250,000	250,000	300,000	300,000
Authorised limit (for other long term liabilities) *	£000	10,000	10,000	10,000	10,000	10,000	10,000
Authorised limit (for total external debt) *	£000	260,000	260,000	260,000	260,000	310,000	310,000

* 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 Service Director (Finance & Commercial Services) will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit.

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.

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Operational boundary (for borrowing)	£000	193,928	200,000	210,000	210,000	250,000	250,000
Operational boundary (for other long term liabilities)	£000	5,562	5,500	5,500	5,500	5,500	5,500
Operational boundary (for total external debt)	£000	199,490	205,500	215,500	215,500	255,500	255,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice documents. It will be reviewed on an on-going basis.

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 2013 was £193.9m which includes £2.3m accrued interest. During the current financial year £5.7m of debt has been repaid. The forecast external borrowing as at 31 March 2013 is £188.2m.

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 indicator consists 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.

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.

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 for 2014/15 is reported to Regulatory and Audit Committee and Council.

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes	Yes

6.3 UPPER LIMIT OF FIXED RATE BORROWING FOR THE 4 YEARS TO 2017/18.

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:

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Fixed interest rate exposure - upper limit *	£000	205,000	200,000	215,000	215,000	265,000	265,000

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

6.4 UPPER LIMIT OF VARIABLE RATE BORROWING FOR THE 4 YEARS TO 2017/18.

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:

Indicator	Unit	Actual 2012-13	Revised Estimate 2013-14	2014/15	2015/16	2016/17	2017/18
Variable interest rate exposure - upper limit *	£000	60,000	75,000	110,000	80,000	80,000	95,000

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

The fourth element requires limits to be set for fixed rate borrowing.

6.5 MATURITY STRUCTURE OF FIXED RATE BORROWING FOR 2014/15 – 2017/18

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:

Maturity Structure of Fixed Rate Borrowing	**Actual 2012-13**		**Revised Estimate 2013/14**		**2014/15**		**2015/16**		**2016/17**		**2017/18**	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	30%	0%	40%	0%	50%	0%	45%	0%	55%	0%	55%	0%
12 months and within 24 months	25%	0%	40%	0%	35%	0%	45%	0%	40%	0%	40%	0%
24 months and within 5 years	50%	0%	55%	0%	55%	0%	55%	0%	55%	0%	55%	0%
5 years and within 10 years	65%	0%	60%	0%	55%	0%	55%	0%	60%	0%	60%	0%
10 years and above	100%	0%	100%	20%	100%	20%	100%	20%	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.

Indicator	**Actual 2012-13**	**Revised Estimate 2013-14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Total principal sums invested for periods longer than 364 days	£0m	£10m	£75m	£75m	£75m	£75m

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £75m.

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.