



CHILTERN
District Council



SOUTH BUCKS
District Council

Stronger in partnership

Prudential Code Briefing

July 2018

Prudential Code Briefing

- **What is the Prudential Code**
 - **Prudence**
 - **Affordability**
 - **Risk Management**
- **Prudential Indicators**
- **The key elements of the Prudential Code**
 - **Capital Strategy**
 - **Treasury Management Strategy**
- **Its relevance to major capital projects/programmes**
- **How the Prudential Code fits into the Budget process**
- **The role of Members**

Prudential Code

The objectives of the Prudential Code are to provide a **framework** for local authority capital finance and treasury management that will ensure for individual local authorities that:

- capital expenditure and investment plans are **affordable**
- all external borrowing and other long-term liabilities are within **prudent and sustainable levels**
- treasury management and other investment decisions are taken in accordance with **professional good practice**

Taking decisions in relation to the above the local authority should act in a clear and transparent manner demonstrating its accountability.

The Prudential Code is important in securing public trust by explaining how its capital and treasury management decisions support its overall aims and its Medium Term Financial Strategy.

Prudential Indicators

- **Designed to demonstrate the impact of investment decisions (capital expenditure or treasury management investments) on the Council's future financial position (MTFS)**
- **They are forward looking.**
- **They need to have local relevance to what the authority's Capital Strategy and MTFS are setting out to achieve.**
- **They should demonstrate the affordability of plans over the medium term, and the risks to be managed**
- **They are not for use as comparative statistics with other authorities as they reflect the particular circumstances and decisions of each individual authority.**

Prudential Indicators

Examples for CDC

	2016/17 Actual £000	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Financing costs	164	-51	-267	-784	-1,050
Net revenue stream	9,470	10,747	10,493	10,268	10,235
Ratio of financing costs to net revenue stream	1.73%	-0.47%	-2.54%	-7.64%	-10.26%
Capital Financing Requirement at year end	0	10,800	15,800	30,530	40,260
Movement in CFR	0	10,800	5,000	14,730	9,730
Net financing need for year	0	10,800	5,000	15,000	10,000
MRP	0	0	0	-270	-270
Movement in CFR	0	10,800	5,000	14,730	9,730
Capital Expenditure	1,840	5,319	12,865	19,081	10,991
Authorised Limit	3,000	13,000	35,000	45,000	50,000
Operational Boundary	3,000	10,000	30,000	40,000	45,000
Actual External Debt	0	10,800	15,800	30,800	40,800

Prudential Indicators – key indicators

Key indicators for the Council will be:

- **The Ratio of Financing Costs to Net Revenue Stream, which indicates the affordability of debt**
- **Estimated Capital Expenditure and estimated Capital Financing Requirement will be the key indicators for Prudence**

Capital Strategy

It sets out the long-term context in which capital expenditure and investment decisions are made and gives consideration to both risk and reward and impact on the achievement of the Council's key objectives.

It sets out.

- **Capital expenditure plans**
- **Capital investments**
- **Liabilities arising from capital expenditure and investments**
- **Relationship with the Treasury Management Strategy**
- **The governance around delivering the Strategy to ensure:**
 - **Sound stewardship of public funds**
 - **Value for money**
 - **Affordability**
 - **How risks are managed, and prudence demonstrated**

Treasury Management Strategy

Treasury Management Strategy sets out the policies, and objectives of the Council's treasury management activities for the year ahead.

The Strategy will explain:

- **The factors driving planned investment and borrowing**
- **How risks will be managed. For commercial investments this will include what the risk appetite is, and level of exposure.**
- **How security and liquidity will be prioritised over returns.**
- **How the Strategy will be controlled and monitored.**

Relevance to Major Capital Projects

- **Transparency (Business case)**
 - **Clear statement of objectives, costs and benefits**
 - **Risks to be managed, in appropriate cases this will include exit strategies**
 - **Financial analysis**
 - **Timelines and key milestones**
- **Affordability**
 - **Impact on Prudential Indicators**
 - **Implications for the MTFS**

Relationship to the Budget Process

As part of the annual budget process the Council is required to consider and approve the following.

- The **Medium Term Financial Strategy** as the Council needs to consider the authority's financial position not just for the coming financial year, but also in the medium/long term.
- Aligned to the MTFS is the **Capital Strategy** which relates to how capital expenditure contributes to achieving the Council's objectives and its impact on the MTFS
- The **Treasury Management Strategy** which set out how surplus cash is managed, and also how long term investments and borrowing will be determined and managed.

Role of Members

- **The role of Members is to understand the Capital Strategy and the Treasury Management Strategy so they can effectively scrutinise them and be satisfied they reflect their overarching aims.**
- **This means that the Capital Strategy must be clear and easy to understand.**
- **In particular if commercial investments form part of the strategies Members must understand the risks and how they will be managed**

Note – Commercial investments cover

- **Commercial loans to companies/individuals**
- **Guarantees**
- **Investments in property companies or development of commercial property portfolios.**