PRUDENTIAL CODE & INDICATORS STATEMENT

The Prudential Code for Capital Finance in Local Authorities was developed by CIPFA to support local authorities with the management of their capital finance and investment programmes. 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 key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. The indicators will be monitored during the year and the final position at the year end compared to the forecast.

Prudential Indicators of Affordability

1.Capital Expenditure

The first prudential indicator for affordability gives details of the total capital expenditure plans. This is to help ensure that these are reasonable given the resources of the council.

	2015/16 Actual £000	2016/17 Forecast £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Capital Expenditure	1,538	6,441	12,063	7,415	3,100

For SBDC the capital programme has in the past been fully funded from capital receipts and Government grant. However, the increased level of budgeted capital expenditure will mean that this will not be possible, and the Council will need to borrow funds to facilitate the budgeted expenditure.

2.Ratio of financing costs to net revenue income stream

The second indicator shows how much of a Council's revenue budget has to be allocated towards interest payments, net of investment income.

	2015/16 Actual £000	2016/17 Forecast £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Financing Costs *ie net investment income plus interest payments*	366	200	68	(148)	(358)
Net Revenue Income Stream *ie Budget Requirement*	8,067	8,234	7,782	8,054	8,003
Ratio	(4.54%)	(2.43%)	(0.87%)	1.84%	4.48%

Until 2017/18, income from investments outweighs any borrowing costs, therefore the ratio of financing costs to revenue budget requirement (Government grant and Council tax income) will be negative. From 2018/19 onwards, borrowing costs are in excess of income from investments and therefore the ratio is positive.

3. Incremental Impact on Council Tax

The next indicator assesses the impact of the capital programme on the revenue budget.

For SBDC the size of the capital programme has an effect on the Council's revenue budget (and hence Council Tax) in three ways.

Firstly each pound spent on the capital programme reduces the amount of capital reserves, which in turn reduces the Council's investment holdings and thus the revenue interest earned by the Council. Based on current investment rates, increasing the overall capital programme by £100,000 will reduce annual interest by and thus increase the revenue budget by £1,000. Similarly reducing the overall capital programme by £100,000 will increase annual interest by and thus reduce the revenue budget by £1,000. £1,000 is equivalent to approximately 3p on the average band D Council Tax.

Secondly additional capital expenditure can result in additional revenue maintenance costs, for instance a new piece of ICT equipment is likely to require additional annual maintenance and support.

Thirdly, any additional capital expenditure funded by borrowing will result in long term commitments to pay interest on the loan.

4. Capital Financing Requirement

The Capital Financing Requirement (CFR) provides details of an authority's underlying need to borrow.

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
SBDC Capital Financing Requirement at year end	0	0	10,600	17,240	19,417
Movement in CFR	0	0	10,600	6,640	2,177

Breakdown of Movement in CFR					
Net financing need for the year	0	0	10,600	6,905	2,608
Minimum Revenue Provision (MRP)	0	0	0	(265)	(431)
Movement in CFR	0	0	10,600	6,640	2,177

The Council is required to repay an element of the accumulated General Fund capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP).

5. Authorised Temporary Borrowing Limits

This indicator sets limits on how much SBDC can borrow.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Authorised Limit	3,000	3,000	20,000	20,000	20,000
Operational Limit	3,000	3,000	13,500	18,500	20,000

The Authorised Limit for South Bucks represents the maximum temporary borrowing limit. The Operational Limit is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. The Authorised Limit represents a limit beyond which external debt is prohibited. It represents the level of external debt which, while not desired, could be afforded in the short term.

Prudential Indicators for Prudence

1. Net Borrowing and The Capital Financing Requirement

The first prudential indicator for prudence is to ensure that in the medium term borrowing will only be used to fund capital expenditure. There are a number of planned capital projects which will require the Council to borrow funds but owing to timing differences, it is possible that some funds will be borrowed in advance of need. The Council will then have cash surpluses until the project is complete. If this situation does occur the cash surpluses will be invested until required for the payment of suppliers.

2. Treasury Management Indicator

The second indicator is whether or not the authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector. SBDC has done this and thus meets this indicator.

3. Upper limit for interest rate exposure.

The interest rates exposure indicators are designed to limit exposure to the effects of changes in interest rates. This measure is more pertinent in the environment of significantly fluctuating interest rates, which is of less relevance at the present time.

	2016/17	2017/18	2018/19	2019/20
Fixed Rate	100%	100%	100%	100%
Variable Rate	60%	70%	80%	90%

As the Council's cash balances decrease, balances held will relate to day to day cash flow requirements. These balances will need to be held in instant access funds, which will be at variable interest rates.

4. Maturity Structure of Borrowings

This indicator is designed to reduce the risk of large sums of borrowings having to be repaid at the same time. The recommended lower limit for maturity is less than 1 year and the recommended upper limit is 40 years. The maturity structure within this range will vary according to the income streams generated by investment decisions.

5. Upper limit for total principal sums invested for over 364 days.

Where a local authority invests, or plans to invest, for periods longer than 364 days, the local authority must set an upper limit for each forward financial year period for the maturing of such investments. This prudential indicator is referred to as prudential limits for principal sums invested for periods longer than 364 days. This indicator is designed to ensure that authorities always have sufficient funds to cover their cash flow needs and thus do not need to realise investments before they reach maturity.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Upper Limit	17	16	15	14

The above upper limit figure has been calculated taking into account the maximum that could be available for investing in excess of 1 year allowing for the needs of short term cash flow and the use of capital receipts to fund capital expenditure