SOUTHEND-ON-SEA BOROUGH COUNCIL
PRUDENTIAL INDICATORS 2018/2019

1 Introduction

1.1 The Prudential Code is the key element in the system of capital finance that was introduced from 1 April 2004 as set out in the Local Government Act 2003.

1.2 Individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the CIPFA code, (which has legislative backing). Prudential limits apply to all borrowing, qualifying credit arrangements (e.g. some forms of lease) and other long term liabilities. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment to do so.

2 CIPFA Prudential Code for Capital Finance in Local Authorities

2.1 The Code has been developed to support Local Authorities in taking capital investment decisions and to ensure that these decisions are supported by a framework which ensures prudence, affordability and sustainability. The Code was updated in December 2017 and requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources.

2.2 Another objective of the Code is that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation. The rationale behind these concepts is set out in the code.

2.3 To demonstrate compliance with these objectives of prudence, affordability and sustainability each local authority is required to produce a set of prudential indicators. These indicators are designed to support and record local decision making and are not for comparison with other authorities. The setting and revising of these indicators must be approved by Cabinet and Council.

2.4 In setting or revising its prudential indicators, the local authority is required to have regard to the following matters:

- service objectives (e.g. strategic planning);
- stewardship of assets (e.g. asset management planning);
- value for money (e.g. options appraisal);
- prudence and sustainability (e.g. risks, whole life costing and implications for external debt);
- affordability (e.g. implications for long-term resources including the council tax);
- practicality (e.g. achievability of the forward plan).

3 Prudential Indicators for Prudence

3.1 *Estimates of Capital Expenditure to be Incurred*

3.1.1 This is an estimate of the total amount of investment planned over the period. Not all investment necessarily has an effect on the Council Tax. Schemes funded by grant, third party contributions or by capital receipts mean that the effect on the Council Tax is greatly reduced.

	Estimate 2018/19 £000	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
General Fund	83,072	66,019	19,374
Housing Revenue Account	9,412	7,930	6,200
Total	**92,484**	**73,949**	**25,574**

3.2 *Estimate of the Capital Financing Requirement*

3.2.1 Each year, the Council finances the capital programme by a number of means, one of which is borrowing. The capital financing requirement represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years (i.e. Minimum Revenue Provision and Reserved Capital Receipts).

3.2.2 The estimates for the capital financing requirement are:

	Estimate 2018/19 £000	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
General Fund	276,244	305,975	311,151
Housing Revenue Account	98,740	98,740	98,740
Total	**374,984**	**404,715**	**409,891**

3.2.3 The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

3.3 *Operational Boundary and Authorised Limit 2018/19 to 2020/21*

3.3.1 The Council must set an operational boundary and authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities. The operational boundary is how much gross external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements. If at any time during the year, it is likely that this limit will be breached it will be reported to members as soon as possible and the Leader advised immediately.

Operational boundary	***Estimate 2018/19 £000***	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
Borrowing	284,500	299,500	304,500
Liabilities outstanding under credit arrangements	500	500	500
Total	**285,000**	**300,000**	**305,000**

Authorised limit	***Estimate 2018/19 £000***	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
Borrowing	294,500	309,500	314,500
Liabilities outstanding under credit arrangements	500	500	500
Total	**295,000**	**310,000**	**315,000**

3.4 *Gross Debt and the Capital Financing Requirement*

3.4.1 Gross external debt is long term external debt (i.e. PWLB loans taken out), short term borrowing from other Local Authorities and credit arrangements relating to finance leases. The estimates for the external debt are:

	Estimate 2018/19 £000	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
External gross debt	279,780	296,210	302,114

3.4.2 Under the Prudential Code, gross external borrowing must not exceed the total of the capital financing requirement for the previous year, plus any additional amounts for the current year and the next two financial years. This means that gross external borrowing cannot exceed £404.715m at 31 March 2018, £409.891m at 31 March 2019.

4 Prudential Indicators for Affordability

4.1 *Housing Revenue Account Limit on Indebtedness*

4.1.1 The Council is required to consider affordability against ring-fenced resources or separate funds such as the Housing Revenue Account. The table below compares the limit on indebtedness to the Housing Revenue Account capital financing requirement.

	Estimate 2018/19 £000	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
Limit on Indebtedness	102,159	102,159	102,159
Capital Financing Requirement	98,740	98,740	98,740
Headroom	**3,419**	**3,419**	**3,419**

4.2 *Estimates of the Proportion of Financing Costs to Net Revenue Stream*

4.2.1 This indicator records estimated capital financing costs as a percentage of the net revenue stream.

4.2.2 Capital financing costs are the revenue cost of financing the debt (the interest payments and the amount set aside annually to repay debt) less interest earned on investments. This is an important indicator because it shows how much of the Council's revenue resources are 'tied up' in fixed capital financing costs. Setting and reviewing this, means that the Council can ensure that its capital financing costs do not become too large a part of the revenue budget, compared to the cost of running services.

	Estimate 2018/19 %	***Estimate 2019/20 %***	***Estimate 2020/21 %***
General Fund	6.89	10.80	15.05
Housing Revenue Account	33.83	34.73	38.11

5 Prudential Indicators for Treasury Management

5.1 Interest rate exposure

5.1.1 The Council usually has the majority of its borrowings at fixed rate and usually has a mixture of fixed and variable rate investments. The following table shows the difference between the estimated interest payable on borrowing and the estimated interest receivable on investments:

	Estimate 2018/19 £000	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***
Interest payable on borrowing	11,128	11,758	11,950
Interest receivable on investments	(952)	(1,040)	(1,151)
Net interest	**10,176**	**10,718**	**10,799**

5.1.2 The following table shows the upper and lower limits on variable interest rate exposures for our investments, expressed as a percentage of the total sums invested:

Variable interest rate investments	***Estimate 2018/19***	***Estimate 2019/20***	***Estimate 2020/21***
Upper limit on sums invested	100%	100%	100%
Lower limit on sums invested	10%	10%	10%

5.1.3 The main risk is that variable rates will fall and thus increase the net interest cost to the Council. However, it is more important to secure the principal sums invested than to optimise income generation. Given the current financial market conditions investment terms will be kept short to reduce counterparty risk.

5.1.4 The upper and lower limits have been set after taking account of the following considerations; Use will be made of call accounts because they provide instant access or notice accounts and these are at variable rates. Fixed interest investments tend to be for longer investment periods than the variable rate investments, however, fixed interest investments placed with other Local Authorities keep counterparty risk low and more use could be made of these.

5.2 Maturity Structure of Borrowing during 2018/19

5.2.1 The table below shows the limits within which the Council delegates its length of borrowing decisions to the Director of Finance and Resources/Section 151 Officer in 2018/19.

	Upper limit %	**Lower limit %**	**Estimated outstanding debt maturity at 31st March 2019 %**
Under 12 months	20	0	3
12 months and within 24 months	30	0	0
24 months and within 5 years	40	0	1
5 years and within 10 years	60	0	17
10 years and within 20 years	100	15	44
20 years and within 30 years	100	10	23
30 years and above	80	5	12

5.2.2 The percentages in each category for the upper and lower limits do not add up to 100% as they do not represent an actual allocation.

5.2.3 The actual maturities of new borrowing will be decided taking account of the maturities of existing loans and the interest rates for the various maturity periods available at the time.

5.3 *Total Principal Sums Invested for Periods over 365 Days*

5.3.1 A large part of the Council's investments are managed by external fund managers. However, a working cash balance is also managed internally within the Council. Part of this cash balance is utilised to smooth out the day to day movements on the cash flow. It is not therefore the intention that this part of the balance would be invested for more than 365 days. The rest of the cash balance is invested to achieve the optimum returns consistent with the effective control of risk.

5.3.2 This indicator sets a prudential limit for principal sums invested for periods over 365 days. The following limits are for principal sums invested in-house:

	Estimate 2018/19 £m	***Estimate 2019/20 £m***	***Estimate 2020/21 £m***
Limits on the total principal sum invested to final maturities beyond the period end	20	20	20