Appendix 6

SOUTHEND-ON-SEA BOROUGH COUNCIL
PRUDENTIAL INDICATORS 2016/2017

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 – whether supported by Government or entirely self financed. 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 rationale behind these concepts is set out in the code.

2.2 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.

3 Prudential Indicators

3.1 *Adoption of the CIFPA Code of Practice*

3.1.1 Cabinet approved adoption of the CIPFA Code of Practice for Treasury Management in the Public Services at its meeting on 12 February 2002.

3.2 Interest rate exposure

3.2.1 Southend-on-Sea Borough Council currently 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 2016/17 £000	***Estimate 2017/18 £000***	***Estimate 2018/19 £000***
Interest payable on borrowing	10,902	11,657	12,135
Interest receivable on investments	(1,116)	(1,428)	(1,686)
Net interest	**9,786**	**10,229**	**10,449**

3.2.2 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 2016/17***	***Estimate 2017/18***	***Estimate 2018/19***
Upper limit on sums invested	100%	100%	100%
Lower limit on sums invested	10%	10%	10%

3.2.3 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.

3.2.4 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.

3.3 *Maturity Structure of Borrowing during 2016/17*

3.3.1 The table below shows the limits within which the Council delegates its length of borrowing decisions to the Head of Finance and Resources/Section 151 Officer in 2016/17.

	Upper limit %	**Lower limit %**	**Estimated outstanding debt maturity at 31st March 2017 %**
Under 12 months	20	0	0
12 months and within 24 months	30	0	0
24 months and within 5 years	40	0	4
5 years and within 10 years	60	0	12
10 years and within 20 years	100	15	48
20 years and within 30 years	100	10	23
30 years and above	80	5	13

3.3.2 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.

3.3.3 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.

3.4 *Operational Boundary and Authorised Limit 2016/17 to 2018/19*

3.4.1 The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much 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.

	Estimate 2016/17 £m	***Estimate 2017/18 £m***	***Estimate 2018/19 £m***
Operational boundary	280	300	305
Authorised limit	290	310	315

3.5 *Estimate of the Capital Financing Requirement*

3.5.1 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).

3.5.2 The estimates for the capital financing requirement are:

	Estimate 2016/17 £000	***Estimate 2017/18 £000***	***Estimate 2018/19 £000***
General Fund	211,712	231,438	235,647
Housing Revenue Account	98,740	98,740	98,740
Total	**310,452**	**330,178**	**334,387**

3.5.3 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.

3.5.4 Under the Prudential Code, net 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 financial year. This means that net external borrowing cannot exceed £310.452m at 31 March 2016, £330.178m at 31 March 2017 and £334.387m at 31 March 2018.

3.6 *Housing Revenue Account Limit on Indebtedness*

3.6.1 The Council is required to report the level of the limit imposed (or subsequently amended) at the time of the implementation of self-financing by the Department for Communities and Local Government. This is to be compared to the Housing Revenue Account capital financing requirement.

	Estimate 2016/17 £000	***Estimate 2017/18 £000***	***Estimate 2018/19 £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**

3.6.2 Net 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, netted down by the amount of investments held. The estimates for the net external debt are:

	Estimate 2016/17 £000	***Estimate 2017/18 £000***	***Estimate 2018/19 £000***
External debt	275,636	295,483	300,423
Investments	(90,207)	(90,472)	(90,741)
Net external debt	**185,429**	**205,011**	**209,682**

3.7 *The Ratio of Financing Costs to Net Revenue Stream*

3.7.1 This indicator records what total net capital financing costs will be as a percentage of the net revenue stream.

3.7.2 Net 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 2016/17 %	***Estimate 2017/18 %***	***Estimate 2018/19 %***
General Fund	12.70	13.76	14.63
Housing Revenue Account	38.05	34.08	34.78

3.8 *The Incremental Impact of New Capital Investment on the Council Tax/Average Weekly Housing Rents*

3.8.1 This is a key indicator of affordability and shows estimates of the incremental impact of the new capital investment decisions on the Council Tax (i.e. on a Band D property) and weekly housing rents.

	Estimate 2016/17 £	***Estimate 2017/18 £***	***Estimate 2018/19 £***
Council tax at band D	5.22	13.82	16.85
Housing rent implications per week	0	0	0

3.8.2 However, the housing rents are set using a formula produced by Government that does not take into account the costs incurred in capital investment. So, although the above housing rents indicator is a key indicator of affordability it does not mean that housing rents will actually rise by this amount over and above the Government's guideline figure.

3.9 *Estimates of Capital Expenditure to be Incurred*

3.9.1 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. Government supported borrowing, schemes funded by grant or by capital receipts mean that the effect on the Council Tax is greatly reduced.

	Estimate 2016/17 £000	***Estimate 2017/18 £000***	***Estimate 2018/19 £000***
General Fund	62,677	46,397	26,622
Housing Revenue Account	10,773	7,500	7,800
Total	**73,450**	**53,897**	**34,422**

3.10 *Total Principal Sums Invested for Periods Longer than 364 Days*

3.10.1 A large part of Southend-on-Sea Borough 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 ever be invested for more than 364 days. The rest of the cash balance is invested to achieve the optimum returns consistent with the effective control of risk.

3.10.2 This indicator sets a prudential limit for principal sums invested for periods longer than 364 days. The following limits are for principal sums invested in-house:

	Estimate 2016/17 £m	***Estimate 2017/18 £m***	***Estimate 2018/19 £m***
Limits on the total principal sum invested to final maturities beyond the period end	25	25	25

4 Application of indicators

4.1 These Prudential indicators demonstrate compliance with the objectives of prudence, affordability and sustainability and therefore influence the Treasury Management Policy and the financing of the capital programme.