SOUTHEND-ON-SEA BOROUGH COUNCIL
PRUDENTIAL INDICATORS 2019/2020

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 2019/20 £000	***Estimate 2020/21 £000***	***Estimate 2021/22 £000***	***Estimate 2022/23 £000***	***Estimate 2023/24 £000***
General Fund	60,301	56,730	27,685	295	295
Housing Revenue Account	12,410	14,377	9,694	6,560	6,560
Total	**72,711**	**71,107**	**37,379**	**6,855**	**6,855**

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 31st March 2020 £000	***Estimate 31st March 2021 £000***	***Estimate 31st March 2022 £000***	***Estimate 31st March 2023 £000***	***Estimate 31st March 2024 £000***
General Fund	284,884	313,946	323,895	315,197	303,928
Housing Revenue Account	98,740	98,740	98,740	98,740	98,740
Total	**383,624**	**412,686**	**422,635**	**413,937**	**402,668**

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 2019/20 to 2021/22*

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 Investment 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 2019/20 £000***	***Estimate 2020/21 £000***	***Estimate 2021/22 £000***	***Estimate 2022/23 £000***	***Estimate 2023/24 £000***
Borrowing	287,100	322,200	337,400	342,500	352,700
Liabilities outstanding under credit arrangements	2,900	2,800	2,600	2,500	2,300
Total	**290,000**	**325,000**	**340,000**	**345,000**	**355,000**

Authorised Limit	***Estimate 2019/20 £000***	***Estimate 2020/21 £000***	***Estimate 2021/22 £000***	***Estimate 2022/23 £000***	***Estimate 2023/24 £000***
Borrowing	297,100	332,200	347,400	352,500	362,700
Liabilities outstanding under credit arrangements	2,900	2,800	2,600	2,500	2,300
Total	**300,000**	**335,000**	**350,000**	**355,000**	**365,000**

3.4 *Gross Debt and the Capital Financing Requirement*

3.4.1 Gross external debt is long term external debt (e.g. 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:

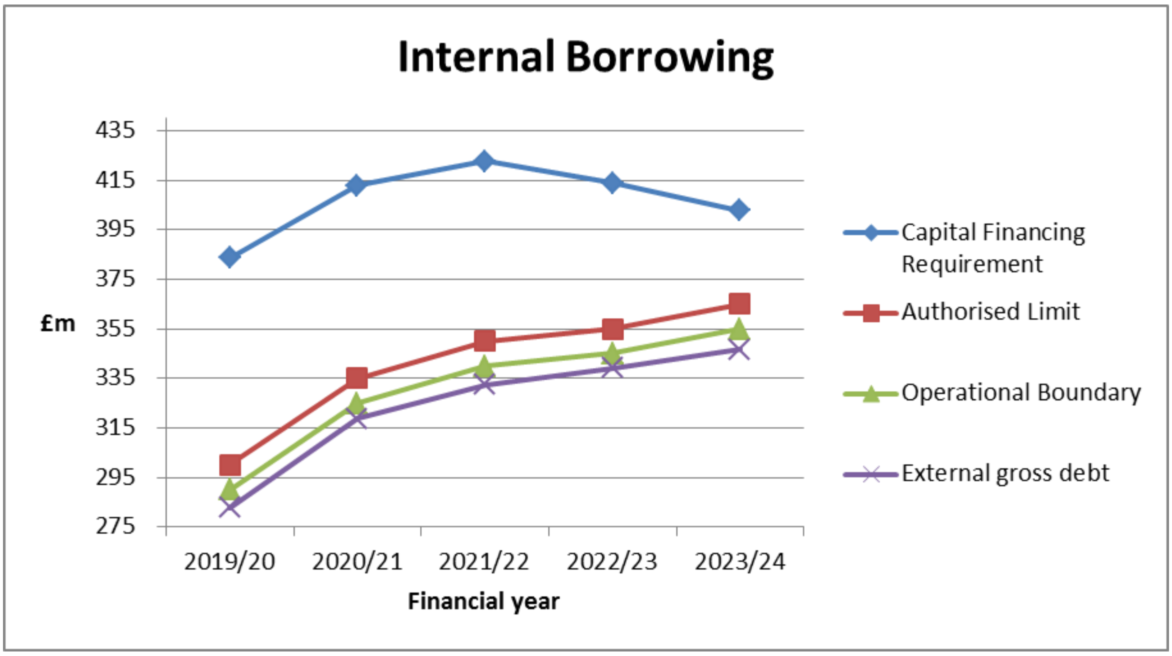
	Estimate 31st March 2020 £000	***Estimate 31st March 2021 £000***	***Estimate 31st March 2022 £000***	***Estimate 31st March 2023 £000***	***Estimate 31st March 2024 £000***
External gross debt	282,810	318,614	332,286	339,035	346,661

3.4.2 Under the Prudential Code, gross external borrowing must not, except in the short term, 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 £422.635m at 31 March 2020, £413.937m at 31 March 2021 and £402.668m at 31 March 2022.

4 Prudential Indicators for Affordability

4.1 *Internal Borrowing/Interest Rate Risk*

4.1.1 The graph below shows the estimated Capital Financing Requirement, Authorised Limit, Operational Boundary and levels of external borrowing over the next five years.



4.1.2 The gap between the Capital Financing Requirement and the levels of external debt illustrates the level of internal borrowing. This reflects the Council's exposure to interest rate movements equivalent to the interest lost on investment income. Also, when the borrowing is taken out the rate will be dependent on the prevailing economic and market conditions at the time. This is a risk if PWLB rates rise significantly. For every 1 basis point (0.01%) increase in rates the interest paid on borrowing £10m for 50 years rises by £50,000 over the life of the loan. A 1% increase in rates on a £10m loan would increase the cost to £5m over the life of the loan.

4.1.3 The gap between the Capital Financing Requirement and the Operational Boundary/Authorised Limit highlights the potential scope and flexibility to borrow further, if the cash flow and treasury management position allows.

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 2019/20 %	***Estimate 2020/21 %***	***Estimate 2021/22 %***	***Estimate 2022/23 %***	***Estimate 2023/24 %***
General Fund	9.71	14.23	15.78	16.56	16.94
Housing Revenue Account	34.15	35.08	35.67	34.80	35.20

5 Prudential Indicators for Treasury Management

5.1 Maturity Structure of Borrowing during 2019/20

5.1.1 The table below shows the limits within which the Council delegates its length of borrowing decisions to the Strategic Director (Finance and Resources)/Section 151 Officer in 2019/20.

	Upper limit %	**Lower limit %**	**Estimated outstanding debt maturity at 31st March 2020 %**
Under 12 months	20	0	-
12 months and within 24 months	30	0	1
24 months and within 5 years	40	0	3
5 years and within 10 years	60	0	21
10 years and within 20 years	100	15	38
20 years and within 30 years	100	10	18
30 years and above	80	5	19

5.1.2 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.

5.1.3 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.

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

5.2.1 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.

5.2.2 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 2019/20 £m	***Estimate 2020/21 £m***	***Estimate 2021/22 %***	***Estimate 2022/23 %***	***Estimate 2023/24 £m***
Limits on the total principal sum invested to final maturities beyond the period end	25	25	25	25	25