BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included within the relevant Forward Plan

11 February 2015 **Report Ref:**

Cabinet: **Report of the Director of Finance, Property and Information Services**

PRUDENTIAL INDICATORS 2015/16

1. Purpose of Report

1.1 The purpose of this report is to seek approval to the Council's 2015/16 Prudential Indicators in accordance with the requirements of the 2003 Local Government Act.

2. Recommendations

2.1 It is recommended that:

- **Members approve the Prudential Indictors set out at Appendix B for the financial year 2015/16 to 2017/18;**
- **Further monitoring reports be submitted on the indicators during the year as necessary.**

3. Background

3.1 The Prudential Code provides a framework that supports effective capital investment decision making by local authorities.

3.2 The framework has two main objectives:

- To ensure that capital investment is affordable, prudent and sustainable;
- To ensure that Treasury Management decisions are made in accordance with good practice.

4. Prudential Indicators

4.1 To ensure that these objectives are achieved, the framework sets out a number of factors that must be taken into account by local authorities as part of the revenue budget setting process and when making capital investment decisions. These are set out below: -

- Service objectives e.g. as set out in the Corporate Prospectus;
- Stewardship of assets e.g. asset management planning;
- Value for Money e.g. options appraisal;
- Prudence and sustainability e.g. the implications for the Authority's external borrowing and whole life costing;

- Affordability e.g. the implications for Council Tax payers and Council Housing rents;
- Practicality e.g. achievement of the Medium Term Financial Strategy.

4.2 Having consideration to the above factors each authority is required to set a suite of prescribed Prudential Indicators. For information purposes a methodology paper is attached at Appendix A. This provides a description of each indicator and the nature of its calculation. The actual prudential indicators for the forthcoming year are attached at Appendix B for approval.

5. Treasury Policy & Strategy Statements 2015/16

5.1 These are the key operational documents for the Council in relation to treasury management. They detail the framework, objectives and strategies upon which the prudential indicators are based. Member approval of these statements is required and is therefore presented elsewhere on this agenda.

6. Consultations

6.1 The prudential indicators set out in this report were established in consultation with the Council's Treasury Management advisors.

7. Reduction of Crime and Disorder

7.1 None arising directly from this report.

8. Employee Implications

8.1 There are no direct employee implications arising from this report.

9. Financial Implications

9.1 The prudential indicators are factored into the wider budget.

10. Appendices

10.1 Appendix A – Prudential Indicators Methodology Paper
Appendix B - Prudential Indicators 2015/2016.

11. Background Papers

11.1 The following documents and publications were used in the preparation of the Prudential Indicators :
- CIPFA's Treasury Management Code of Practice
- CIPFA's Prudential Code for Capital Finance in Local Authorities.
- Papers from the Council's Treasury Management advisors (Arlingclose).

Office Contact: Frances Foster Date: 28.01.15

Appendix A

Prudential Indicators – Methodology

1 Background and Information

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when setting and reviewing their Prudential Indicators.

The Prudential Code imposes on local authorities clear governance procedures for setting and revising of prudential indicators, and describes the matters to which an authority will 'have regard' when doing so. This is designed to deliver accountability in taking capital financing, borrowing and treasury management decisions.

The Prudential Indicators required by the Prudential Code are designed to support and record local decision making and not as comparative performance indicators.

A number of treasury indicators which previously formed part of the Prudential Code are now contained within the Treasury Management Code and Guidance. Local authorities are still required to 'have regard' for these indicators.

2 Basis of Methodology

1. Estimates of Capital Expenditure

The estimates of the Council's future capital expenditure levels (and the HRA) underpin the calculation of the other prudential indicators. The capital expenditure estimates are based on a projection of future levels of capital resources/ allocation.

Estimates of capital expenditure are a significant source of risk and uncertainty and it is important that these estimates are continually monitored and the impact on other prudential indicators (particularly those relating to affordability) assessed regularly.

2. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

3. Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

4. Incremental impact of new capital investment decisions on Council tax / Housing rents

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

5. Authorised limit

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimated debt with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under the Local Government Act 2003 and must not be exceeded during the year.

6. Operational Boundary for External Debt

This indicator refers to the means by which the authority manages its external debt to ensure it remains within the statutory authorised limit. It differs from the authorised limit in as far as it is based on the most <u>likely</u> scenario, in terms of capital spend and financing during the year.

The operational boundary limit comprises the Council's existing debt plus the most likely estimate of capital expenditure/financing for the year. It excludes any projections for cash flow movements. Unlike the authorised limit breaches of the operational boundary (due to cash flow movements) are allowed during the year as long as they are not sustained over a period of time.

7. Adoption of the CIPFA TM Code

This indicator is acknowledgment that the local authority has adopted the CIPFA's *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*.

8. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

The limits adopted by Council provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

9. Maturity Structure of Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, thereby managing the effects of refinancing risks.

The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment.

10. Maximum Principal Sums invested for more than 364 days

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 364 days. This limit is set to contain exposure to credit and liquidity risk.

11. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Where **the gross debt is greater than the capital financing requirement the reasons** for this should be clearly stated in the annual treasury management strategy.

Appendix B

1. Capital Expenditure

	Current Estimate 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	£M	£M	£M	£M
General Fund (GF)	43	15	5	
Housing Revenue Account (HRA)	42	48	24	21
TOTAL	**85**			

2. Ratio of Financing Costs to Net Revenue Stream

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	%	%	%	%
GF	15	16	18	
HRA	44	43	43	43

3. Capital Financing Requirement

	Current Estimate 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	£M	£M	£M	£M
GF	653	649	635	
HRA	287	285	281	274
TOTAL	**940**			

4. Estimates of the Incremental Impact of Capital Decisions on Council Tax / Rents

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	£	£	£	£
Increase in Band D Council Tax	7.03	8.08	8.08	8.08
Increase in Average Weekly Housing Rents	1.06	1.19	3.04	4.32

5. Authorised Limit for External Debt

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	£M	£M	£M	£M
Borrowing	730	725	725	725
Other Long-term Liabilities	235	240	240	240
TOTAL LIMIT	**965**	**965**	**965**	**965**

6. Operational Boundary for External Debt

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	£M	£M	£M	£M
Borrowing	715	710	710	710
Other Long-term Liabilities	235	240	240	240
TOTAL LIMIT	**950**	**950**	**950**	**950**

7. Adoption of CIPFA code of Practice in TM

The Council adopted the CIPFA Code of Practice on Treasury Management on 13th February 2002.

8a. Interest Rate Exposure - GF

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	90	90	90	90
Upper Limit for Variable Rate Exposure	25	25	25	25

8b. Interest Rate Exposure – HRA

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100
Upper Limit for Variable Rate Exposure	25	25	25	25

9a. Maturity Structure of Borrowing - GF

	Approved 2014/15		2015/16	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Less than 12 months	0%	50%	0%	50%
12 months & within 24 months	0%	25%	0%	25%
24 months & within 5 years	0%	25%	0%	25%
5 years & within 10 years	0%	25%	0%	25%
10 years & within 20 years	0%	75%	0%	75%
20 years and within 30 years	0%	75%	0%	75%
30 years and within 40 years	0%	75%	0%	75%
40 years and within 50 years	0%	75%	0%	75%
50 years and above	0%	75%	0%	75%

9b. Maturity Structure of Borrowing - HRA

	Approved 2014/15		2015/16	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Less than 12 months	0%	25%	0%	25%
12 months & within 24 months	0%	25%	0%	25%
24 months & within 5 years	0%	25%	0%	25%
5 years & within 10 years	0%	25%	0%	25%
10 years & within 20 years	0%	75%	0%	75%
20 years and within 30 years	0%	75%	0%	75%
30 years and within 40 years	0%	75%	0%	75%
40 years and within 50 years	0%	75%	0%	75%
50 years and above	0%	75%	0%	75%

10. Maximum Principal Sums Invested

	Approved 2014/15	Year 1 2015/16 Estimate	Year 2 2016/17 Estimate	Year 3 2017/18 Estimate
	£M	£M	£M	£M
Principal Sums Invested > 364	20	20	20	20
Principal Sums Invested > 2yrs	20	20	20	20
Principal Sums Invested > 3yrs	20	20	20	20

11. Gross Debt and CFR

Gross Debt & CFR	2015/16 Estimate
	£M
Outstanding Borrowing	566
Other Long-term Liabilities	238
Gross Debt	**804**
Max CFR	944
Headroom	**140**