

The Prudential Code for Capital Investment in Local Authorities

Treasury Management Outturn Report 2015/16

1. Introduction

- 1.1 There are a number of treasury indicators which previously formed part of the Prudential Code, but which are now more appropriately linked to the Revised Treasury Management Code and guidance 2009. Local authorities are still required to “have regard” to these treasury indicators.
- 1.2 The key treasury indicators which are still part of the Prudential Code are:
- Authorised limit for external debt;
 - Operational boundary for external debt; and
 - Actual external debt.

2. **Net borrowing and the Capital Financing Requirement**

- 2.1 To ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.
- 2.2 Net borrowing should not therefore, except in the short term, have exceeded the Capital Financing Requirement (“CFR”) for 2015/16 plus the expected changes to the CFR over 2015/16 and 2015/16 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16.
- 2.3 **The authorised limit** – This sets the maximum level of external borrowing on a gross basis (i.e. Not net of investments) and is the statutory limit determined under Section 3 (1) of the Local Government Act 2003 (referred to in the legislation as Affordable Limit).
- 2.4 **The operational limit** – This links directly to the Council’s estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limits reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit for future known capital needs now. It should act as a monitor indicator to ensure the authorised limit is not breached.
- 2.5 The total CFR as at 31 March 2016 was £587.1m, which is lower than the Approved Authorised Limit of £802m and the Operational Boundary of £751m, which were set in the Treasury Management Strategy Statement for 2015/16. Total external borrowing as at 31 March 2016 was £452.1m.
- 2.6 The actual 2015/16 borrowing requirements and estimates for authorised limits and operational boundary limit set out in Table 1. Capital Programme Borrowing Requirement increases significantly in 2015/16 and 2016/17 as a result of the urban regeneration and economic growth programme of Gascoigne Estate (East) Phase 1 and Abbey Road 2.

Table 1: Operational Limit and Authorised Borrowing Limits

	2015/16 Estimate	2015/16 Actual	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000	£'000
Capital Programme Borrowing Requirement (Cumulative)	262,945	263,917	309,281	330,276
HRA Self Financing Debt	270,922	267,722	281,672	281,672
Alternative Financing Arrangements:				
- PFI Schemes on Balance Sheet	52,427	52,427	50,969	49,407
- Finance Leases	2,818	2,987	1,676	366
Total Alternative Financing	55,245	55,413	52,645	49,773
Total CFR	589,112	587,051	643,598	661,720
External Borrowing (Cumulative)	394,912	452,112	444,912	444,912
Operational Boundary on Borrowing	751,000	751,000	749,000	747,000
Authorised Limit (affordable limit)	802,000	802,000	793,000	794,000

3. Limits for Fixed and Variable Interest Exposure

The following prudential 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 Council's existing level of fixed interest rate exposure is 100.0% and variable rate exposure is 0.0%. The high fixed interest rate is as a result of locking in low long-term rates for the HRA borrowing. The table 2 below shows the fixed and variable interest rate exposure.

Table 2: Fixed and variable rate exposure 2015/16 to 2018/19

Interest Rate Exposures	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Upper limit for fixed interest rate exposure	100.0	100.0	100.0	100.0
Upper limit for variable interest rate exposure	70.0	70.0	70.0	70.0

4. Maturity Structure of Fixed Rate Borrowing

This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period, as summarised in table 3.

Table 3: Borrowing as at 31 March 2016

Maturity structure of fixed interest rate borrowing 2015/16			
	Actual Position	Lower	Upper
Under 12 months	12.7%	0%	20%
12 months to 2 years	0%	0%	40%
2 years to 5 years	0%	0%	70%
5 years to 10 years	0%	0%	70%
10 years and above	87.3%	0%	100%

The fixed rate borrowing over 10 years was 87.35%, which is within the limits outlined below:

Table 4: Maturity Structure of Borrowing for 2015/16

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	70%	0%
5 years and within 10 years	70%	0%
10 years and above	100%	0%

5. Investments over 364 days

- 5.1 The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. Taking into account the current level of investments, and future projections of capital expenditure, the following limits will be applied to sums invested:

Maximum principal sums invested > 364 days £'000s	2015/16 £000's Actual	2016/17 £000's Estimate	2017/18 £000's Estimate	2018/19 £000's Estimate
Principal sums invested > 364 days	147,892	170,000	150,000	130,000

6. Summary Assessment

- 6.1 The outturn position is set out above in respect of the Prudential Indicators approved by Assembly in February 2015.
- 6.2 The outturn figures confirm that the limits and controls set for 2015/16 were applied throughout the year, and that the treasury management function adhered to the key principles of the CIPFA Prudential Code of prudence, affordability and sustainability. The treasury management indicators were regularly monitored throughout 2015/16.