

The Prudential Code for Capital Investment in Local Authorities

Treasury Management Outturn Report 2014/15

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 2014/15 plus the expected changes to the CFR over 2014/15 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 2014/15.

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 2015 was £493.25m, which is lower than the Approved Authorised Limit of £650m set for 2014/15.

2.6 The Operational and Authorised Limit relates to external borrowing only and Council’s CFR has large internal borrowing element. Total external borrowing as at 31 March 2015 was £394.9m which was inside the Operational and Authorised Limit.

- 2.7 The actual 2014/15 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

	2014/15 Estimate	2014/15 Actual	2015/16 Estimate	2016/17 Estimate
	£'000	£'000	£'000	£'000
Capital Programme Borrowing Requirement (Cumulative)	187,867	167,450	185,072	203,966
HRA Self Financing Debt	267,722	267,722	270,922	281,672
Alternative Financing Arrangements:				
- PFI Schemes on Balance Sheet	53,781	53,781	52,427	50,969
- Finance Leases	4,411	4,297	2,818	1,339
Total Alternative Financing	58,192	58,078	55,245	52,308
Total CFR	513,780	493,250	511,239	537,946
External Borrowing (Cumulative)	394,912	394,912	394,912	394,912
Operational Boundary on Borrowing	500,000	500,000	500,000	500,000
Authorised Limit (affordable limit)	650,000	650,000	650,000	650,000

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 2014/15 to 2017/18

Interest Rate Exposures	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2016/17 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 2015

Maturity structure of fixed interest rate borrowing 2014/15			
	Actual Position	Lower	Upper
Under 12 months	0%	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	100%	0%	100%

The fixed rate borrowing over 10 years was 100.00%, which is within the limits outlined below:

Table 4: Maturity Structure of Borrowing for 2013/14

	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	2014/15 £000's Actual	2015/16 £000's Estimate	2016/17 £000's Estimate	2017/18 £000's Estimate
Principal sums invested > 364 days	44,926	120,000	120,000	120,000

6. Summary Assessment

- 6.1 The outturn position is set out above in respect of the Prudential Indicators approved by Assembly in February 2014.
- 6.2 The outturn figures confirm that the limits and controls set for 2014/15 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 2014/15.