

PRUDENTIAL INDICATORS 2015/16 TO 2017/18

The following prudential indicators are recommended to the Council.

A. Prudential indicators for Affordability

In demonstrating the affordability of its capital investment plan the council must:

- Determine the ratio of financing costs (e.g. capital repayments, interest payments, investment income, etc) to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services for a 3 year period.
- Determine the incremental impact on the council tax and housing rents (in both instances the scope for increases is governed by the Government's ability to limit council tax increases and the current restriction on council rents).

Indicator A1 sets out the ratio of financing costs to net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

A1: Prudential indicator – Estimates of the ratio of financing costs to net revenue stream 2015/16 to 2017/18

Indicator	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non HRA	6.33	7.65	8.3
HRA	37.6	36.9	36.3

Indicators A2 and A3 set out the estimated incremental impact on both the levels of council tax (Band D equivalent) and housing rents of the recommended capital investment plans and funding proposals. The impact has been calculated using the latest projections on interest rates for both borrowing and investments. The impact does not take account of government support included for new borrowing within the formula spending share and housing subsidy.

A2: Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the council tax 2015/16 to 2017/18

Indicator	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Additional annual Council Tax requirement	2.47	35.86	53.77

A3: Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the average weekly housing rents 2015/16 to 2017/18

Indicator	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Addition in average weekly housing rent	5.00	10.28	16.47

B. Prudential indicators for Prudence

B1: Prudential indicator – 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 the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

The Head of Corporate Finance reports that the Authority had no difficulty meeting this requirement in 2014/15, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

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

C. Prudential indicator for Capital Expenditure

Elsewhere in this report is a recommendation for the capital investment plans for the Council over the next three years. Indicator C1 summarises the recommendations within that report. Indicator C2 sets out the estimates of the capital financing requirement over the same period.

C1: Prudential indicator – Estimates of total capital expenditure 2015/16 to 2017/18

Indicator	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total Non HRA	47,745	22,582	21,720
Total HRA	31,523	19,557	17,457
Total Programme	79,268	42,139	39,177

In considering the capital investment plan the Council has had regard to a number of key issues, namely:

- affordability, e.g. implications for council tax/housing rents
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the forward plan.

C2: Prudential indicator – Estimates of capital financing requirement 2015/16 to 2017/18

Indicator	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
HRA	184,793	187,693	190,593
Non-HRA	154,412	164,297	173,876
Total	339,205	351,989	364,469

The estimates are based on the financing options included in the recommended capital investment programme. The estimates will not commit the Council to particular methods of funding – the actual funding of capital expenditure will be determined after the end of the relevant financial year.

The Council has a number of daily cashflows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with the approved treasury management strategy and practices. In day to day cash management no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. It is possible, therefore, that external debt could exceed the capital financing requirement in the short term.

D. Prudential indicators for External Debt

A number of prudential indicators are required in relation to external debt.

D1: Prudential indicator – Authorised limit 2015/16 to 2017/18

Indicator	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	515,535	564,952	614,069
Other Long Term Liabilities	1,400	1,200	1,000
Total	516,735	566,152	615,069

The authorised limit is the aggregate of gross borrowing (i.e. before investment) and other long term liabilities such as finance leases. In taking its decisions on the budget report the Council is asked to note that the authorised limit determined for 2015/16 in the above table is a statutory limit required to be determined by full Council under section 3(1) of the Local Government Act 2003.

The authorised limits are consistent with the Council's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Head of Corporate Finance confirm that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

D2: Prudential indicator – Operational boundary 2015/16 to 2017/18

Indicator	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	485,335	534,952	584,069
Other Long Term Liabilities	1,400	1,200	1,000
Total	486,735	536,152	585,069

The operational boundary is based on the authorised limit but without the additional headroom. The operational boundary represents a key management tool for in-year monitoring by the Head of Corporate Finance. As with the authorised limit figures for borrowing (gross) and other long term liabilities are separately identified.

The authorised limit and operational boundary separately identify borrowing from other long-term liabilities. The council is recommended to delegate authority to the Head of Corporate Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the council at its next meeting following the change.

D3: Prudential indicator – HRA Limit on Indebtedness Under Self Financing

This is otherwise known as the Debt Cap, the absolute level of debt permitted under Self Financing Regulations. The debt cap is set at £188.141m, therefore all debt attributable to the HRA cannot exceed this figure. Agreement to increase the debt cap to borrow an additional £11.58m in 2015/16 with regards to the HRA has been received from the DCLG, giving a revised debt cap £199.721m.

E. Prudential indicators for Treasury Management

A number of prudential indicators are required in respect of treasury management. The indicators are based on the council’s treasury management strategy and take into account the pre-existing structure of the council’s borrowing and investment portfolios.

E1: Prudential indicator – Thurrock Council has adopted the “CIPFA Code of Practice for Treasury Management in the Public Services” within its Financial Standing Orders.

E2: Prudential indicators – Upper limits on interest rate exposure 2015/16 to 2017/18

Indicator	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	50%	50%	50%

The above percentages are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit of 100% is a consequence of the council maintaining an investment portfolio. Indicator E2a exemplifies the indicator over borrowing and investment.

E2a: Prudential indicators (supplemental) – Upper limits on interest rate exposure 2015/16 to 2017/18

Indicator	2015/16	2016/17	2017/18
Upper limit on borrowing – fixed rate exposure	100%	100%	100%
Upper limit on borrowing – variable rate exposure	50%	50%	50%
Upper limit on investments – fixed rate exposure	100%	100%	100%
Upper limit on investments – variable rate exposure	50%	50%	50%

Indicator E2a is supplemental to Indicator E2 and shows separately the maximum limits for both borrowing and investments. The indicator is not a requirement of the prudential code but it does show more clearly the interest rate exposure limits within which borrowing and investments will be managed. The effect of the limits is the Head of Corporate Finance will manage fixed interest rate exposure within the range 0% to 100% for borrowing and within the range 0% to 100% for investments.

E3; Prudential indicator – Upper and lower limits on the maturity structure of borrowing 2015/16

	Upper Limit	Lower Limit
under 12 months	100%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	60%	0%
10 years and within 20 years	60%	0%
20 years and within 30 years	60%	0%
30 years and within 40 years	60%	0%
40 years and within 50 years	100%	0%
50 years and above	100%	0%

The limits in Indicator E3 represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period.

E4: Prudential indicator – Principle sums invested for periods longer than 364 days

Indicator	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Limit	35,000	35,000	35,000

E5: Prudential indicator – Credit Risk:

- The Council employs Treasury advisors (Arlingclose) who provide monthly updates that consider security, liquidity and yield in that order, when making investment decisions.
- Credit ratings remain an important element of assessing credit risk, but, they are not a sole feature in the Council's assessment of counterparty credit risk
- The Council also considers alternative assessments of credit strength and information on corporate developments and market sentiment towards counterparties. The following key tools are used to assess credit risk:
 - Published credit ratings of the financial institution (minimum BBB- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns)
 - Sovereign support mechanisms
 - Credit default swaps (where quoted)
 - Share prices (where available)
 - Economic fundamentals, such as country's net debt as a percentage of its GDP
 - Corporate developments, news, articles, market sentiment and momentum
 - Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. All other indicators of creditworthiness are considered in relative rather than absolute terms