

APPENDIX D2

Prudential Code for Capital Finance in Local Authorities Prudential Indicators for 2015-16 (revised) and 2016-17

1. Capital Expenditure

The actual capital expenditure that was incurred in 2014-15 and the estimates of capital expenditure to be incurred for the current and future years are:

| | 2014-15 Actual £ million | 2015-16 Estimate £ million | 2016-17 Estimate £ million | 2017-18 Estimate £ million | 2018-19 Estimate £ million | 2019-20 Estimate £ million | 2020-21 Estimate £ million |
|-------------------------|-----------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| General Fund | 3.368 | 19.149 | 34.706 | 26.752 | 46.681 | 7.949 | 2.514 |
| Housing Revenue Account | 12.115 | 15.855 | 13.832 | 11.248 | 9.621 | 8.905 | 8.883 |
| Total | 15.483 | 35.004 | 48.538 | 38.000 | 56.302 | 16.854 | 11.397 |

2. Affordability

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

| | 2014-15 Actual £ million | 2015-16 Estimate £ million | 2016-17 Estimate £ million | 2017-18 Estimate £ million | 2018-19 Estimate £ million | 2019-20 Estimate £ million | 2020-21 Estimate £ million |
|-------------------------|-----------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| General Fund | -1% | -2% | -2% | -4% | -5% | -7% | -9% |
| Housing Revenue Account | 24% | 23% | 24% | 24% | 25% | 26% | 25% |

The negative figures reflect the Authority's General Fund position as a net investor, the interest earned being used to help fund the budget.

The other affordability indicator is the incremental impact of capital investment decisions on the council tax as shown below and, on the average weekly housing rents and this is considered to be not applicable as the increase/decrease in housing rents on the HRA is based on Government guidance and not on the amount of HRA capital expenditure.

| Incremental Impact of Capital Investment Decisions | 2015-16 Estimate £ p | 2016-17 Estimate £ p | 2017-18 Estimate £ p | 2018-19 Estimate £ p | 2019-20 Estimate £ p | 2020-21 Estimate £ p |
|-----------------------------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| General Fund (increase/(decrease)) | 15.11 | -3.85 | 26.68 | -37.04 | -2.81 | 0.00 |

3. Capital Financing Requirement

The capital financing requirement is capital expenditure which has not been fully financed from a local authority's own resources in the year but has been covered by raising external or internal debt. The capital requirement at 31 March 2015 is £208.996 million; thereafter:

| | 31/03/2015 Actual £ million | 31/03/2016 Estimate £ million | 31/03/2017 Estimate £ million | 31/03/2018 Estimate £ million | 31/03/2019 Estimate £ million | 31/03/2020 Estimate £ million |
|-------------------------|--------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|
| General Fund | 4.567 | 11.820 | 38.600 | 61.780 | 84.880 | 104.000 |
| Housing Revenue Account | 204.429 | 204.429 | 204.429 | 204.429 | 204.429 | 204.429 |
| Total | 208.996 | 216.249 | 243.029 | 266.209 | 289.309 | 308.429 |

The General Fund capital financing requirement fluctuates due to financing internally refuse vehicles, part of the purchase of wheeled bins and cash overdrawn on equity share repurchases, but this financing is then partly repaid over the period. The increase in capital financing requirement during 2015-16 being due to external borrowing for on-lending to South Cambs Limited, a wholly owned subsidiary of the Council, with further borrowing phased over the period to 2018-19.

4. External Debt

HRA self-financing required the Council to take on external debt of £205.123 million at the end on 2011/12 the Council obtained 41 individual loans with maturity dates between 2037 and 2057. General Fund external debt of £107.0 million relates to external borrowing for on-lending to South Cambs Limited with borrowing phased over the period to 2018-19.

The prudential indicators for external debt will be:

i. Authorised limit

| | 2014-15 Actual £ million | 2015-16 Estimate £ million | 2016-17 Estimate £ million | 2017-18 Estimate £ million | 2018-19 Estimate £ million | 2019-20 Estimate £ million |
|-----------------------------|-----------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| Borrowing | 205.1 | 219.0 | 240.0 | 260.3 | 283.7 | 316.0 |
| Other Long Term Liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 205.1 | 219.0 | 240.0 | 260.3 | 283.7 | 316.0 |

The authorised limit is the maximum limit consisting of HRA debt of £205 million and General Fund £34.9 million to take advantage of interest rate differentials and to meet immediate cash flow requirements and external debt. The authorised limit is the statutory affordable borrowing limit under Section 3 (1) Local Government Act 2003.

Net borrowing is set out in the table below and one of the key indicators of prudence is that net debt is not in excess of the capital financing requirement.

| | 2014-15 Actual £ million | 2015-16 Estimate £ million | 2016-17 Estimate £ million | 2017-18 Estimate £ million | 2018-19 Estimate £ million | 2019-20 Estimate £ million |
|-------------|-----------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| Borrowing | 205.0 | 219.0 | 240.0 | 260.3 | 284.0 | 316.0 |
| Investments | -43 | -53 | -53 | -40 | -40 | -40 |
| Net debt | 162.0 | 166.0 | 187.0 | 220.3 | 244.0 | 276.0 |

Another indicator to highlight where an authority may be borrowing in advance of need is the ration of the net debt to gross debt.

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net debt to gross debt | 78% | 77% | 77% | 83% | 84% | 89% |

ii. Operational boundary

The operational boundary for external debt is based on the same estimates as the authorised limit but reflects the most likely scenario and is expected to be £240 million for both borrowing and other long term liabilities increasing to £316.0 million in 2019-20.

iii. Actual debt

The third indicator for external debt is actual debt at the end of the last financial year (2014-15) and was £205.123 million.

5. Maturity Structure of Borrowing

As the Council will undertake long term borrowing to on-lend and, a minimal amount of short-term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements and the HRA debt is at fixed rates, the upper limits to be set for borrowing will be:

| | Under 12 Months | More than 12 months |
|----------------------------------------------|----------------------------|--------------------------------|
| Upper limit for fixed interest rate exposure | 100% | 100% |
| Upper limit for variable rate exposure | 100% | 0% |

6. Treasury management

The Prudential Code requires the Authority to have adopted the CIPFA Code of Practice for Treasury Management in the Public Services: South Cambridgeshire has adopted this Code.

i. Liquidity of Investments

The procedure for determining the maximum periods for which funds may be prudently committed is to formulate the five years investing plan. No investments will be made for more than five years. The prudential indicators for principal sums invested for longer than 364 days being the maximum limit shall be:

| Investment period | <i>Longer than 364 days but less than two years £ million</i> | <i>Longer than one year and 364 days but less than three years £ million</i> | <i>Longer than two years and 364 days but less than four years £ million</i> | <i>Longer than three years and 364 days but less than five years £ million</i> |
|-------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Maximum Limit | 10.0 | 8.0 | 6.0 | 4.0 |

ii. Interest rate Exposure

The Council will only undertake a minimal amount of short-term borrowing to take advantage of interest rate differentials and to meet immediate cash flow requirements; the upper limits for interest rate exposures are based on gross investments. These upper limits for the forthcoming financial year and the following two years will be:

| Upper limit on gross investments | 2016/17 | 2017/18 | 2018/19 |
|----------------------------------|----------------|----------------|----------------|
| Fixed Rate | 100% | 100% | 100% |
| Variable rate | 50% | 50% | 50% |