

Revision to Prudential Indicators

Portfolio	Non Executive Function
Ward(s) Affected:	n/a

Purpose

To change the Council's Prudential Indicators to permit further borrowing to allow investment in property in furtherance of Key Priority 2

1. Key Issues

- 1.1. The increase in Prudential Indicators does not commit the Council to borrow – this is a decision based on whether there is property to invest in and its financial return.
- 1.2 Key Priority 2 commits the Council to invest to make money and this supports that aim.
- 1.3 By law only Full Council can approve changes to the Prudential Indicators. This is to ensure that all Members approve the borrowing limits of the Council.

2. Options

- 2.1. Members can accept, reject or amend the proposal.

3. Proposal

- 3.1. It is proposed that the Council approve the setting of the Level of External Debt and the Prudential Indicators as set out in Annex.

4. Corporate Objectives And Key Priorities

- 4.1. The proposal supports Key Priority 2.

5. Risk Management

- 5.1. When entering into borrowing the Council must be confident not only that the interest can be serviced but also that the debt can be repaid through the mechanism of a Minimum Revenue Payment (MRP). This risk is minimised by only investing in assets which comply with the Asset Investment Strategy. However it does not eliminate the risk entirely. If the Council is unable to service the debt there is a risk that this will fall on the General Fund and hence have an impact on the Council's ability to deliver services.

- 5.2. The Council can minimise its interest rate risk by borrowing on a fixed basis for the longest possible period. This however reduces the financial return. The Council is working with its financial advisors on its borrowing strategy to try to increase returns whilst reducing risk.

6. Legal Issues

- 6.1. Only Full Council can approve changes to the Prudential Indicators.

7. Resource Implications

- 7.1. By taking advantage of low interest rates the Council will be able to make a return to support services. Property investment can only be done in accordance with the Asset Acquisition Strategy which stipulates that a net return of at least 2% must be achieved for it to be considered for investment. This means that were the whole £35m increase invested the Council must achieve a minimum return of £700k otherwise the purchases will not be made.
- 7.2. The Council is able to fix its loans for any period up to 50 years. The Council will take the advice of its professional treasury advisors, Arling Close, to put the most cost effective borrowing in place.

8. Recommendation

- 8.1. The Council is advised to RESOLVE that the setting of the level of External Debts and the Prudential Indicators be approved as set out in Annex A.

Annexes: Setting of Prudential Indicators

Background Papers: None

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Proposals for Full Council – Prudential Indicators**a) Setting of External Debt Level**

Members are asked to resolve that the Prudential Indicators for External Debt be set as follows:

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Operation Boundary	157	157	157	157
Authorised Limit	167	167	167	167

The “operational boundary” is the expected level of debt whereas the “authorised limit” is the absolute approved maximum that may be undertaken.

b) Setting of Prudential Indicators

Members are asked to approve the following Prudential Indicators

i) Ratio of Financing Costs to Net Revenue Stream:

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
General Fund	-16	-39	-40	-41

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 financing costs, net of investment income.

ii) Incremental Impact of Capital Investment Decisions:

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	-24.06	-53.52	-88.21

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

iii) Interest rate exposures

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposures	£167m	£167m	£167m
Upper limit on variable interest rate exposures	£167m	£167m	£167m

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date of later. All other instruments are classed as variable rate.

iv) Maturity structure of borrowing:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Minimum Revenue Payment

	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Minimum Revenue Payment	202	1,553	1,558	1,562

This is the minimum payment to be made out of revenue each year to repay capital

vi) Capital Financing Requirement

	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement	19	150	150	150

This is the level of financing the Council requires to fund its assets to be funded from revenue