

Prudential Indicators as at 30 September 2015a) Capital ExpenditureIndicator 1 - Capital Expenditure

The actual capital expenditure for the current year compared to the original estimate and revised budget, together with estimates of expenditure to be incurred in future years are shown below:

	2014/15 Actual £k	2015/16 Original £k	2015/16 Revised £k	2016/17 Estimate £k	2017/18 Estimate £k
Total Capital expenditure	5,145	12,945	8,306	2,581	3,681

The revised 2015/16 figure reflects the latest estimate of spend, as reported to members in the monthly 'Management Accounts' report in September 2015

Indicator 2 - Ratio of Capital Financing Costs to Net Revenue Stream

The ratio of financing costs to net revenue stream for the current year and estimates for future years are as follows: -

	2014/15 Actual %	2015/16 Original %	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %
Ratio of Financial Costs to Net Revenue Stream	12.88	6.29	6.37	5.68	6.81

These ratios indicate the proportion of the net budget of the Authority that is required to finance the costs of capital expenditure in any year. Estimates of financing costs include current commitments and the proposals contained in the capital programme of the Authority.

In calculating the ratio, Net Revenue Streams in any year have been taken to exclude any element of the net budget requirement that is intended to provide reserves for the Authority.

The projected increase in the ratio over the period reflects the increase in capital financing costs resulting from the capital allocations approved as part of the medium-term financial plan.

### Indicator 3 - Capital Financing Requirement

The capital financing requirement for 2015/16 and estimates for future years are as follows:-

	Actual 31/03/15 £k	Estimate 31/03/16 £k	Estimate 31/03/16 £k	Estimate 31/03/17 £k
Capital Financing Requirement	15,589	19,432	19,583	21,110

The capital financing requirement measures the Authority's need to borrow for capital purposes. In accordance with best professional practice, the Humberside Fire Authority does not associate borrowing with particular items or types of expenditure. The Authority has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Strategy. 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. In contrast, the capital financing requirement reflects the Authority's underlying need to borrow for a capital purpose. A key indicator of prudence under the Prudential Code is: -

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".

The S151 Officer reports that the Authority has had no difficulty meeting this requirement during the course of this financial year and no difficulties are envisaged in future years. This takes into account current commitments, existing plans and the proposals contained in the Medium Term-Financial Plan.

### Indicator 4 - Authorised Limit for External Debt

The table below shows the Authorised limit for External Debt for 2015/16 and subsequent two year period as approved by Members, compared to the actual level of borrowing as at 30 September 2015.

	2015/16 Estimate £k	Actual as at 30/09/15 £k	2016/17 Estimate £k	2017/18 Estimate £k
Borrowing	27,600	16,620	27,300	27,000
Other Long Term Liabilities	678	678	466	278
	<u>28,278</u>	<u>17,298</u>	<u>27,766</u>	<u>27,278</u>

The Authorised Limit reflects the Authority's projected long and short term borrowing requirements, together with any other long-term liabilities it may have. The figures are based on the estimate of most likely, prudent but not worst case scenario, with sufficient headroom over and above this to allow for operational management of, for example unusual cash movements.

The S151 Officer confirms that the Authorised Limit has not been approached at any point during the first half of the year, nor is it likely to during the remaining six months of 2015/16.

#### Indicator 5 - Operational Boundary for External Debt

The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the S151 Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the S151 Officer.

	2015/16 Estimate £k	Actual As at 30/09/15 £k	2016/17 Estimate £k	2017/18 Estimate £k
Borrowing	21,600	16,620	21,300	21,000
Other Long Term Liabilities	678	678	466	278
	<u>22,278</u>	<u>17,298</u>	<u>21,766</u>	<u>21,278</u>

The S151 Officer confirms that borrowing in the year has not exceeded the operational boundary at any point within the year to date and is not expected to do so over the course of the next period based on information currently available.

#### Indicator 6 - Incremental Impact of Capital Investment decisions

In considering its programme for capital investment, the Authority must have regard to: -

- Affordability – e.g. implications for Council Tax
- 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

A key measure of affordability is the incremental impact on the Council Tax, which in practice will depend on individual financing decisions taken in circumstances which pertain at the time.

The estimates of the incremental impact of capital investment decisions approved as part of the Medium-Term Financial Plan are as follows: -

	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Impact for Band D Council Tax	(0.63)	0.08	1.52

#### b) Treasury Management

##### Indicator 7 – Fixed and Variable Rate Exposure

This indicator seeks to ensure that the Authority limits its exposure to the risk of interest rate changes and the consequent impact on the investment income and interest payments on loans, by restricting the proportion of variable rate borrowing.

	2015/16	2016/17	2017/18
	%	%	%
Fixed Rate – Upper Limit	100	100	100
Fixed Rate – Lower Limit	75	75	75
Variable Rate – Upper Limit	25	25	25
Variable Rate – Lower Limit	0	0	0

The Authority's current loan portfolio as at 30/09/15 is 100% comprised of PWLB loans with a fixed rate of interest.

##### Indicator 8 – Upper and Lower Limits for the maturity structure of borrowings

This indicator seeks to ensure the Authority controls its exposure to the risk of interest rate changes by limiting the proportion of debt maturing in any single period. Ordinarily debt is replaced on maturity and therefore it is important that the Authority is not forced to replace a large proportion of loans at a time of relatively high interest rates.

“The Authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowings. The prudential indicators will be referred to as the upper and lower limits respectively for the maturity structure of borrowing and shall be calculated as follows:

Amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate;

Where the periods in question are:

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and above"

	Actual as at 30/09/15	Upper Limit	Lower Limit
	%	%	%
Under 12 Months	9.74	15	0
12 months and within 24 months	5.40	15	0
24 months and within 5 years	15.49	25	0
5 years and within 10 years	30.69	60	0
10 years and above	38.68	80	0

The S151. Officer confirms that the maturity structure of external debt as at 30/09/15 is within the upper and lower limits approved by the Authority.

Indicator 9 – Upper limit for maturity structure of investments

Under the Prudential Regime Authorities are free to invest for periods of greater than one year; however this indicator sets restrictions on the proportion of investments committed for longer periods in order to limit the risks associated with being unable to meet unexpected cash flows and/or being able to take advantage of future increases in interest rates.

The Authority has agreed that liquidity and certainty are particularly desirable given the current economic climate; hence any surplus funds would not be invested for periods longer than 364 days. The S.151 Officer confirms that treasury management activity during the first half of 2015/16 has complied with this requirement.

	Actual as at 30/09/15	Upper Limit
	%	%
Under 12 Months	100	100
Over 12 months	0	0

