

## **Appendix 1**

### **Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement for 2017/18 to 2019/20 are shown in the table below (excluding Private Finance Initiative schemes):

	31/03/2017 Final £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
CFR	581	620	750	900

### **Usable Reserves**

Estimates of the Council's level of Usable Reserves for 2017/18 to 2019/20 are as follows:

	31/03/2017 Final £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
Usable Reserves	113	90	75	60

### **Prudential Indicator Compliance**

#### **Authorised Limit and Operational Boundary for External Debt**

The Local Government Act 2003 requires the Council to set an Authorised Borrowing Limit. This is a statutory limit which should not be breached. The Council's Authorised Borrowing Limit was set at £900m for 2017/18. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2017/18 was set at £800m. The Chief Finance Officer confirms that there were no breaches to the Authorised Limit or the Operational Boundary so far this year; borrowing at its peak was £415m.

#### **Upper Limits for Fixed Interest Rate and Variable Interest Rate Exposure**

These 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 allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2017/18	Maximum during 2017/18
Upper Limit for Fixed Rate Exposure	100%	100%
Upper Limit for Variable Rate Exposure	40%	0%

## **Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. A breakdown of the maturity structure of fixed rate borrowing is provided in Appendix 2.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 31/08/17 £m	% Fixed Rate Borrowing as at 31/08/17	Compliance with Set Limits?
Under 12 months	40	0	29	7	Yes
12 months and within 24 months	20	0	14	3	Yes
24 months and within 5 years	20	0	65	16	Yes
5 years and within 10 years	60	0	5	1	Yes
10 years and above	100	0	301	73	Yes

## **Net Debt and the CFR**

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Authority should ensure that the net external borrowing does not exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and next two financial years.

The Authority had no difficulty meeting this requirement so far in 2017/18, 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.

## **Total principal sums invested for periods longer than 364 days**

This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

The limit for 2017/18 was set at £40m.

The Council's practice since the onset of the credit crunch in 2007 has generally been to keep investment maturities to a maximum of 12 months. At 31 August, the last maturity date in the deposits portfolio was 20 August, 2018.

## **Credit Risk**

This indicator has been incorporated to review the Council's approach to credit risk. The Council confirms it considers 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 the sole feature in the Authority's assessment of counterparty credit risk. The authority considers the following tools to assess credit risk, with advice and support from our advisers, Arlingclose:

- Published credit ratings of the financial institution and its sovereign;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with a minimum long term credit rating of A- or equivalent, as set in the 2017/18 TMSS.

### **HRA Limit on Indebtedness**

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government.

HRA Limit on Indebtedness	31/03/2017 Final £m	31/03/2018 Estimate £m	31/03/2019 Estimate £m	31/03/2020 Estimate £m
HRA CFR	128	157	177	190
HRA Debt Cap (as prescribed by CLG)	199	199	199	199
Difference	60	42	22	9