

## COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2017/18

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

### **1. 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 CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement to date, nor are there any difficulties envisaged for the remainder of the current and future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below detail our expected debt position and the year-on-year change to the CFR, updated to reflect the latest capital programme:

*Table 10 – Current and Estimated Movement in Gross Debt*

<b>Gross Debt</b>	<b>31/03/2017 Actual £M</b>	<b>31/03/2018 Estimate £M</b>	<b>31/03/2019 Estimate £M</b>	<b>31/03/2020 Estimate £M</b>	<b>31/03/2021 Estimate £M</b>
Borrowing B/Fwd	96.40	96.40	125.03	161.17	164.60
Maturing Debt		(5.97)	(5.96)	(18.97)	(10.03)
New Borrowing Requirement (Table 3)		34.60	42.10	22.40	10.30
<b>Total General Fund Borrowing</b>	<b>96.40</b>	<b>125.03</b>	<b>161.17</b>	<b>164.60</b>	<b>164.87</b>
HRA Borrowing B/Fwd	163.25	163.25	178.14	182.74	181.44
Maturing Debt		(5.51)	(5.50)	(17.50)	(9.25)
New Borrowing Requirement (Table 3)		20.40	10.10	16.20	10.10
<b>Total HRA Borrowing</b>	<b>163.25</b>	<b>178.14</b>	<b>182.74</b>	<b>181.44</b>	<b>182.29</b>
<b>Total Borrowing</b>	<b>259.65</b>	<b>303.17</b>	<b>343.91</b>	<b>346.04</b>	<b>347.16</b>
Finance leases and Private Finance Initiatives	62.26	60.42	58.32	55.31	52.14
Transferred Debt	14.92	14.55	14.19	13.83	13.46
<b>Total Debt</b>	<b>336.83</b>	<b>378.14</b>	<b>416.42</b>	<b>415.18</b>	<b>412.76</b>

Table 11 – Current and Estimated Movement in Capital Financing Requirement

	31/03/2017 Actual £M	31/03/2018 Forecast £M	31/03/2019 Forecast £M	31/03/2020 Forecast £M	31/03/2021 Forecast £M
Balance Brought forward	280.75	322.56	349.28	378.64	373.73
Capital Spend Financed from Borrowing (Table 3)	43.72	28.93	36.89	4.33	0.71
MRP	(5.00)	(5.35)	(5.73)	(5.86)	(5.47)
Appropriations (to) from HRA	0.98	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(2.89)	(2.21)	(2.47)	(3.38)	(3.53)
MRP Holiday	5.00	5.35	0.67	0.00	0.00
<b>Total General Fund Debt</b>	<b>322.56</b>	<b>349.28</b>	<b>378.64</b>	<b>373.73</b>	<b>365.44</b>
HRA (see table 13 below for break down)	163.25	178.14	182.73	181.44	182.29
<b>Total CFR</b>	<b>485.81</b>	<b>527.42</b>	<b>561.37</b>	<b>555.17</b>	<b>547.73</b>

## 2. Ratio of Financing Costs to Net Revenue Stream

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 borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme (including cost of long term liabilities).

This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP, which is the main contributor for the increase in 2019/20 and 2020/21. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Table 12 – Current and Estimated Movement in Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing Costs to Net Revenue Stream	2016/17 Actual %	2017/18 Forecast %	2018/19 Forecast %	2019/20 Forecast %	2020/21 Forecast %
General Fund	8.56*	7.44*	8.16*	8.32	6.42
HRA	14.12	14.61	14.98	30.81	20.33
<b>Total</b>	<b>11.17</b>	<b>10.13</b>	<b>10.84</b>	<b>15.84</b>	<b>10.88</b>

\*The figure quoted as the actual for 2016/17 General Fund includes MRP due for the year but not actually charged to revenue due to previous overprovision.

## 3. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the authority adopted the principles of best practice.

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code* on 19 February 2003 and all its subsequent updates. (latest 2011 edition)

## 4. HRA Limit on Indebtedness

Local authorities are required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the DCLG at the time of implementation of self-financing. Forecast figures have been update to reflect capital programme being submitted to Council on 19<sup>th</sup> July 2017.

Table 13 – Current and Estimated Movement in HRA Indebtedness

HRA Limit on Indebtedness	2016/17 Actual £M	2017/18 Forecast £M	2018/19 Forecast £M	2019/20 Forecast £M	2020/21 Forecast £M
Brought Forward	155.00	163.25	178.14	182.73	181.44
Maturing Debt	(5.60)	(5.51)	(5.51)	(17.49)	(9.25)
New borrowing (Table 3)	14.83	20.40	10.10	16.20	10.10
Appropriations (to) from HRA	(0.98)	0.00	0.00	0.00	0.00
<b>Carried forward</b>	<b>163.25</b>	<b>178.14</b>	<b>182.73</b>	<b>181.44</b>	<b>182.29</b>
HRA Debt Cap (as prescribed by CLG)	199.60	199.60	199.60	199.60	199.60
<b>Headroom</b>	<b>36.35</b>	<b>21.46</b>	<b>16.87</b>	<b>18.16</b>	<b>17.31</b>

## 5. Summary

As indicated in this report none of the Prudential Indicators have been breached.