COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2020/21

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 a number of 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 in 2020/21 to date, 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.

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 and actual debt position, details of movement on the CFR can been seen in the Appendix 2, Treasury Activity, table 2.

This shows that we now expect to borrow £181.11M less than forecast when the Strategy was set in February, which is mainly due to slippage in the capital programme of £151.4M for the GF and £29.7M for HRA. Further details can be seen in the General Fund and HRA capital reports being reported to Council in November.

Gross Debt	**31/03/2020 Actual £M**	**31/03/2021 Strategy £M**	**31/03/2021 Forecast £M**	**31/03/2021 Variance £M**
Borrowing (Long Term GF)	109.59	350.83	199.43	151.40
Borrowing (Long Term HRA)	157.28	207.67	177.97	29.70
Borrowing (Short Term)	10.36	10.36	10.36	0.00
Total Borrowing	**277.23**	**568.86**	**387.76**	**181.11**
Finance leases and Private Finance Initiatives	54.01	50.96	50.96	0.00
Transferred Debt	13.83	13.46	13.46	0.00
Total Other Debt	**67.84**	**64.42**	**64.42**	**0.00**
Total Debt	**317.77**	**382.52**	**345.07**	**(37.45)**

2. Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary in the year to date; borrowing at its peak was £292M plus other deferred liabilities of £67.8M.

3. Upper Limits for Fixed Interest Rate Exposure 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 2020/21 (%)	Maximum during 2020/21 (%)
Upper Limit for Fixed Rate Exposure	100	82.3
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	17.8
Compliance with Limits:	Yes	Yes

4. Total Principal Sums Invested for Longer Than a Year

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £100M. The actual principal sum invested to date has peaked at £30M and is made up of the £27M in Property funds (CCLA) and Bonds of £3M. This lower than that reported previously and reflects the withdrawal from the Bonds market where the return is no longer attractive and to only borrow when cash flow dictate.

5. 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 15% 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. 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.

Ratio of Financing Costs to Net Revenue Stream	**2019/20 Actual %**	**2020/21 Forecast %**	**2021/22 Forecast %**	**2022/23 Forecast %**	**2023/24 Forecast %**
General Fund	6.84	7.60	10.94	12.93	12.40
HRA	7.20	6.61	7.30	7.51	7.13
Total	**8.79**	**9.38**	**12.07**	**13.33**	**12.89**

6. HRA Limit on Indebtedness

Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level incorporating affordability and prudence. As such it has been agreed that the limit will remain for existing stock and that as part of the new build strategy relevant Prudential Indicators will be agreed.

7. Summary

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