

**COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2018/19**

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. Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on council tax and in the case of the HRA, housing rent levels. Planned capital expenditure and financing is summarised below. Further detail is provided in the capital update report which is being submitted to Cabinet on 20 November.

<b>Capital Expenditure and Financing</b>	<b>Budget 2018/19 £M</b>	<b>Forecast 2018/19 £M</b>	<b>Forecast 2019/20 £M</b>	<b>Forecast 2020/21 £M</b>	<b>Forecast 2021/22 £M</b>	<b>Forecast 2022/23 £M</b>
General Fund	85.84	86.76	29.23	30.97	11.96	18.63
HRA	58.76	50.60	46.75	43.95	35.45	0.00
<b>Total Expenditure</b>	<b>144.60</b>	<b>137.36</b>	<b>75.99</b>	<b>74.92</b>	<b>47.41</b>	<b>18.63</b>
Capital receipts	19.08	18.49	4.86	1.22	2.84	0.00
Capital Grants	30.55	30.50	13.38	19.29	0.00	0.04
Contributions	11.33	11.19	1.14	0.00	0.26	0.00
Major Repairs Allowance	19.76	16.26	23.48	22.47	21.10	0.00
Direct Revenue Financing	13.16	13.16	2.98	10.22	11.25	0.00
<b>Total Financing</b>	<b>93.88</b>	<b>89.60</b>	<b>45.84</b>	<b>53.20</b>	<b>35.45</b>	<b>0.04</b>
Council Resources - borrowing	50.72	47.76	30.15	21.72	11.96	18.59
<b>Total Funding</b>	<b>50.72</b>	<b>47.76</b>	<b>30.15</b>	<b>21.72</b>	<b>11.96</b>	<b>18.59</b>
<b>Total Financing &amp; Funding</b>	<b>144.60</b>	<b>137.36</b>	<b>75.99</b>	<b>74.92</b>	<b>47.41</b>	<b>18.63</b>

**2. 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 2018/19 to date, nor are there any difficulties envisaged for the remainder of 2018/19 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:

<b>Gross Debt</b>	<b>31/03/2018 Actual £M</b>	<b>31/03/2019 Estimate £M</b>	<b>31/03/2020 Estimate £M</b>	<b>31/03/2021 Estimate £M</b>	<b>31/03/2022 Estimate £M</b>	<b>31/03/2023 Estimate £M</b>
Borrowing (Long Term)	59.89	35.18	111.34	121.97	152.03	152.03
Borrowing (Short Term)	33.35	78.22	10.35	10.35	10.35	10.35
Finance leases and Private Finance Initiatives	58.84	56.74	53.73	50.55	46.98	43.41
Transferred Debt	14.55	14.19	13.83	13.46	13.10	13.10
<b>Total General Fund Debt</b>	<b>166.64</b>	<b>184.33</b>	<b>189.25</b>	<b>196.34</b>	<b>222.46</b>	<b>218.89</b>
HRA	157.92	171.16	191.84	201.93	200.62	200.62
<b>Total Debt</b>	<b>324.60</b>	<b>355.49</b>	<b>381.10</b>	<b>398.30</b>	<b>423.10</b>	<b>419.50</b>

<b>Capital Financing Requirement</b>	<b>31/03/2018 £M</b>	<b>31/03/2019 £M</b>	<b>31/03/2020 £M</b>	<b>31/03/2021 £M</b>	<b>31/03/2022 £M</b>	<b>31/03/2023 £M</b>
Balance Brought forward	322.62	322.03	346.50	346.39	348.43	350.27
New Borrowing	4.41	31.97	9.48	11.63	11.96	18.59
MRP	(7.13)	(5.59)	(6.21)	(6.06)	(6.18)	(6.38)
Appropriations (to) from HRA	0.56	0.00	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.78)	(2.46)	(3.38)	(3.53)	(3.94)	(3.93)
MRP Holiday	5.35	0.55	0.00	0.00	0.00	0.00
<b>Total General Fund Debt</b>	<b>322.03</b>	<b>346.50</b>	<b>346.39</b>	<b>348.43</b>	<b>350.27</b>	<b>358.55</b>
HRA	157.92	171.17	191.84	201.93	200.62	200.62
<b>Total CFR</b>	<b>479.95</b>	<b>517.67</b>	<b>538.23</b>	<b>550.36</b>	<b>550.89</b>	<b>559.17</b>

### 3. Total Principal Sums Invested for Periods Longer than a year

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested was set at £55M for 2018/19. Long term investments as at 30 September were £33M having reduced from £35M at the beginning of the year.

### 4. Maturity Structure of Fixed Rate Borrowing

This indicator is set to control the council's exposure to refinancing risk and is designed to protect against excessive exposures to interest rate changes in any one period. The upper and lower limits of borrowing were:

<b>Debt</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>	<b>Actual Debt as at 30/9/2018 £M</b>	<b>Average Rate as at 30/9/2018 %</b>	<b>% of Debt</b>	<b>Compliance with set Limits?</b>
Under 12 months	0	45	38.11	1.53%	16	Yes
12 months and within 24 months	0	45	40.49	2.16%	17	Yes
24 months and within 5 years	0	50	17.99	3.16%	7	Yes
10years and within 20 years	0	55	11.00	4.84%	5	Yes
20 years and within 30 years	0	65	13.00	4.67%	5	Yes
30 years and within 40 years	0	75	92.60	3.77%	38	Yes
40 years and within 50 years	0	75	31.25	3.56%	13	Yes
			<b>244.44</b>	<b>3.32%</b>	<b>100</b>	

Please note: the TM Code Guidance Notes (Page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment". For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

## 5. General Fund Ratio of Financing Costs to Net Revenue Stream

This indicator is no longer a requirement of the Prudential code but we have retained it as a local indicator at the moment. It tries to show 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%. The table below shows the likely position based on the proposed capital programme (including cost of long term liabilities).

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2017/18 Actual %</b>	<b>2018/19 Forecast %</b>	<b>2019/20 Forecast %</b>	<b>2020/21 Forecast %</b>	<b>2021/22 Forecast %</b>
General Fund*	9.61	7.89	9.23	8.86	9.47

\*The figure quoted as the actual for 2017/18 General Fund includes MRP due for the year but not actually charged to revenue due to previous overprovision.

## 6. HRA Limit on Indebtedness

Local authorities are currently required to report the level of the HRA CFR compared to the level of debt which is imposed (or subsequently amended) by the MHCLG at the time of implementation of self-financing, which was set at £199.6M. This cap was formally removed on 29 October 2018 with the publication of the Limits on Indebtedness (Revocation) Determination 2018, the implications of which is currently being assessed.

Forecast figures have been update to reflect the capital programme being submitted to Council in September 2018. The levels of voluntary minimum revenue provision for 2019/20 and 2020/21 are under review and will form part of the MTFs report that is put to Full Council in February 2019.

<b>HRA Limit on Indebtedness</b>	<b>2017/18 Actual £M</b>	<b>2018/19 Forecast £M</b>	<b>2019/20 Forecast £M</b>	<b>2020/21 Forecast £M</b>	<b>2021/22 Forecast £M</b>	<b>2022/23 Forecast £M</b>
Brought Forward	163.18	157.92	171.17	191.84	201.93	200.62
Voluntary Repayment of Debt	(5.51)	(5.50)	0.00	0.00	(1.31)	0.00
New borrowing	0.81	18.75	20.67	10.09	0.00	0.00
Depn (MRP)	0.00	0.00	0.00	0.00	0.00	0.00
Appropriations (to) from HRA	(0.56)	0.00	0.00	0.00	0.00	0.00
<b>Carried forward</b>	<b>157.92</b>	<b>171.17</b>	<b>191.84</b>	<b>201.93</b>	<b>200.62</b>	<b>200.62</b>

## 7. Summary

As indicated in this report none of the Prudential Indicators have been breached in 2018/19 to date.