



**South
Derbyshire
District Council**

Prudential Indicators 2018/19

February 2018

Introduction

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.

Estimated Capital Expenditure and Financing

This is the approved capital investment programme for the General Fund, together with stock investment proposals included in the HRA Business Plan. The programme is summarised in the following table.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Estimated Capital Expenditure	£	£	£	£	£	£
General Fund	4,060,070	2,484,720	736,000	736,000	736,000	786,000
HRA	1,735,320	2,869,513	1,888,000	1,935,000	1,983,000	1,692,000
TOTAL	5,795,390	5,354,233	2,624,000	2,671,000	2,719,000	2,478,000
Financed by						
Grants and Contributions	1,256,538	990,948	336,000	336,000	336,000	336,000
Council Resources	4,538,852	4,363,285	2,288,000	2,335,000	2,383,000	2,142,000
TOTAL	5,795,390	5,354,233	2,624,000	2,671,000	2,719,000	2,478,000

The current year estimated expenditure on the General Fund relates to the relocation of the Council's Depot and a substantial vehicle upgrade program, which will continue into 2018/19. Subsequent years' expenditure relates to the continuing asset replacement program.

The general downward trend of HRA expenditure relates to the reduction in major repairs. The forecast spike in 2018/19 relates to one-off expenditure on the building of new properties.

Overall, the capital expenditure programme is financed from Government grants, external contributions, Council reserves and capital receipts.

The table highlights that the 5-year investment programme is fully funded. It is expected that the borrowing requirement will be met internally. If all financing is not secured, expenditure will need to be curtailed or other resources and reserves identified.

Due to the current level of reserves and cash on deposit, current policy is that any longer term borrowing is undertaken only as a last resort to meet any shortfall; any new borrowing will only be undertaken prudentially within the Council's debt limits.

The Council's Borrowing Need or Capital Financing Requirement (CFR)

The CFR is a measure of the Council's underlying need to borrow for capital investment and is based on the net value of fixed assets contained in the Council's Balance Sheet.

The CFR does not necessarily represent the amount of actual external debt outstanding. This is due to the fact that not all borrowing previously allowed has in effect taken place against this requirement, but is being financed internally through cash deposits and reserves.

Capital expenditure that has not been immediately paid for increases the CFR through additional borrowing, including internally. The CFR is reduced following debt repayment or through setting-aside revenue sums to repay internal borrowing.

The Council is required to pay off an element of the accumulated General Fund CFR each year through a revenue charge called the Minimum Revenue Provision (MRP). In addition, a Voluntary Revenue Provision (VRP) is made where borrowing has taken place on a prudential basis.

There is no requirement to make a MRP for the HRA. However, in future years, money will be set-aside to repay HRA debt in accordance with the maturity profile. This strategy is reflected in the HRA's Financial Plan.

A summary of the CFR estimates is shown in the following table.

Expected CFR	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CFR b/fwd	67,583	67,237	66,900	66,572	66,251	55,993
Add New Financing	0	0	0	0	0	0
Less MRP	-214	-206	-197	-190	-182	-175
Less VRP	-131	-131	-131	-131	-76	-21
Less Debt Repayment	0	0	0	0	-10,000	0
CFR c/fwd	67,237	66,900	66,572	66,251	55,993	55,798
General Fund Proportion	5,653	5,316	4,988	4,667	4,409	4,214
HRA Proportion	61,584	61,584	61,584	61,584	51,584	51,584
	67,237	66,900	66,572	66,251	55,993	55,798

The VRP relates to the repayment of previous internal borrowing relating to the purchase of receptacles to extend the kerbside recycling scheme in 2013, together with the repayment of the internal borrowing for the Grove Hall Extreme Sports project.

Debt Pools

The Council operates two separate Debt Pools, one for the General Fund and one for the Housing Revenue Account (HRA). There is no external debt currently outstanding on the General Fund, although it has a positive CFR representing an underlying borrowing need.

The General Fund CFR is reduced each year by a statutory revenue charge known as the Minimum Revenue Provision (MRP). In addition a Voluntary Revenue Provision (VRP) is made where borrowing has been undertaken on a prudential basis.

There is no requirement to make a MRP or VRP in the Housing Revenue Account. The HRA has debt outstanding of just over £57m. This represents the debt inherited under the self-financing framework for Council Housing.

Although no MRP is required for the HRA, in future years, money will be set-aside to repay the HRA debt in accordance with the maturity profile. This strategy is reflected in the HRA's Financial Plan. The expected CFRs over the current financial planning period to 2022/23 are detailed in the following table.

Expected CFR	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	5,653	5,316	4,988	4,667	4,409	4,214
HRA	61,584	61,584	61,584	61,584	51,584	51,584

The CFR on the General Fund will continue to reduce over the medium-term due to MRP/VRP being applied. These charges for all years are included in the Council's base budget.

Effectively, the MRP/VRP creates a cash amount in the Council's budget in order to write down the underlying borrowing requirement.

The larger CFR on the HRA is forecast to remain fairly static until such time as any new borrowing is undertaken or until the first repayment of £10m self-financing debt in 2021/2022.

Limits to Borrowing Activity

The Council is required to set limits on overall borrowing (net of investments). This controls borrowing and ensures that the Council does not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and the next two financial years.

A short term deviation is allowed for flexibility if a limited amount of borrowing was required to meet temporary shortfalls in cash flow. The estimated position is detailed in the following table.

Estimated Borrowing Compared to the CFR	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Gross Borrowing - HRA	57,423	57,423	57,423	57,423	47,829	47,829
Gross Borrowing - General Fund	0	0	0	0	0	0
Total Gross Borrowing	57,423	57,423	57,423	57,423	47,829	47,829
Total CFR	67,237	66,900	66,572	66,251	55,993	55,798

The above table shows that as gross borrowing is likely to remain below the CFR, the Council will comply with this Prudential Indicator.

The Authorised Limit for External Debt

This is the limit beyond which external debt is prohibited. It is the statutory limit determined under section 3(1) of the Local Government Act 2003 and is the debt cap for HRA self-financing of £66.853m.

The Operational Boundary for External Debt

This represents the expected external debt during the course of the year, but it is not a limit. It is designed to aid the Chief Finance to manage treasury activity on a daily basis and acts as an early warning sign of any potential issues. It includes a provision for temporary borrowing of £5m. As in recent years, it is not expected that any temporary borrowing will be required, but is included as a contingency should cash flow become negative in the short-term.

The Limit and Boundary are summarised in the following table.

Debt Limits	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Authorised Limit - General Fund	5,653	5,316	4,988	4,667	4,409	4,214
Authorised Limit - HRA	66,853	66,853	66,853	66,853	66,853	66,853
Operational Boundary	62,423	62,423	62,423	62,423	52,423	52,423

Cost of Debt to Finance Capital Expenditure

This indicator shows how much per year the costs of borrowing impact upon each household (at Band D Council Tax rate) in the District and for each council tenant (HRA).

As there is no actual debt on the General Fund, the impact on Council Tax is positive as this represents interest on cash deposits.

Cost of Servicing Debt	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Estimated Net Interest Received - General Fund	-20,000	-45,000	-45,000	-45,000	-45,000	-45,000
Estimated Band D Properties (per MTFP)	31,647	32,467	33,007	33,547	34,086	34,626
Cost per Band D Property	-£0.63	-£1.39	-£1.36	-£1.34	-£1.32	-£1.30

No red

Estimated Net Interest Payable – HRA	1,762,478	1,797,575	1,797,644	1,797,715	1,797,788	1,497,863
Est Council Dwellings (per MTFP)	3,006	2,988	2,972	2,958	2,945	2,932
Annual Cost per Dwelling	£586.32	£601.60	£604.96	£607.85	£610.56	£510.95

The Use of the Council's Resources and the Investment Position

The Council has available at any one time, reserves and balances which are held to finance future expenditure commitments or to act as a contingency sum as recommended by the Council's Chief Finance Officer.

These balances are available for investment on a short-term basis in accordance with the Investment Strategy. The expected level of reserves and balances is shown in the following table.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Estimated Usable Reserves	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	9,213	8,180	6,742	5,407	3,899	2,052
Earmarked	11,206	10,706	10,586	10,544	10,185	9,627
Capital Receipts and Grants	3,011	4,016	5,185	6,251	7,263	8,222
Debt Repayment	3,054	5,465	7,857	10,188	2,458	5,755
HRA	4,397	4,195	3,844	3,476	3,222	2,701
TOTAL	30,881	32,561	34,213	35,866	27,026	28,357

The above table shows that overall the level of resources is expected to decrease over the financial period and it assumes in particular, that forecasted deficits on the General Fund will be financed from general reserves until budget savings or additional income are identified. When identified, the level of resources will remain higher.

It is estimated that the current level of earmarked reserves will gradually be utilised over the financial period. The level of capital receipts is estimated to fluctuate due to the timing of receipts from council house and planned land sales, together with the timing of actual capital expenditure payments.

Based on this level of reserves, it is estimated that the Council will continue to have funds available for investment each year. In accordance with the Investment Strategy, these investments will continue to be held in short-term (less than 364 days) deposit accounts.

Ratio of Financing Costs to Net Revenue Stream

This indicator shows the trend in the net cost of borrowing (allowing for investment income) against the net revenue stream, i.e. Council Tax for the General Fund and Rent Income for the HRA. Estimates are included in the Council's Medium Term Financial Plan (MTFP) and are shown in the following table.

Financing Ratios	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£	£	£	£	£	£
General Fund						
Estimated Council Tax Income	4,942,217	5,169,145	5,357,554	5,551,345	5,750,657	5,955,631
Net Interest Receivable	-20,000	-45,000	-45,000	-45,000	-45,000	-45,000
Proportion	-0.40%	-0.87%	-0.84%	-0.81%	-0.78%	-0.76%
HRA						
Estimated Rental Income	12,320,843	12,165,641	12,315,000	12,328,000	12,581,000	12,902,000
Estimated Interest Payable	1,762,478	1,797,575	1,797,644	1,797,715	1,797,788	1,497,863
Proportion	14.30%	14.78%	14.60%	14.58%	14.29%	11.61%

With no debt on the General Fund, the indicator is negative. The ratio reflects the level of "gearing" - how much of the Council's revenue is tied up in borrowing costs. Although the proportion for the HRA is greater in percentage terms, this is a relatively fixed cost but affordable within the HRA's Financial Plan.