

Appendix D

Compliance with Prudential Indicators

The Council has complied with its prudential indicators during the period 1 April – 30 September 2018. The indicators were set in February 2018 as part of the Council's Treasury Management Strategy Statement.

Borrowing in Comparison to the Capital Financing Requirement

Estimates of the Council's cumulative maximum external borrowing requirement for 2018/19 to 2020/21 are shown in the table below.

	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M
Gross CFR	519.2	560.1	588.5	604.8
Less: PFI liabilities	(16.5)	(15.8)	(15.2)	(14.9)
Borrowing CFR	502.7	544.3	573.3	589.9
Less: Existing profile of long term borrowing	(275.6)	(275.6)	(275.6)	(275.6)
Gross Borrowing Requirement/Internal Borrowing	227.1	268.7	297.7	314.3

These forecast borrowing figures are based on the full Capital Programme being achieved.

(a) Estimates of Capital Expenditure

This indicator is set to ensure that the level of capital expenditure remains within sustainable limits. The Council's planned capital expenditure and financing, as approved by Council in February 2018, can be summarised as follows.

Capital Expenditure and Financing	2017/18 Actual £M	2018/19 Estimate £M	2019/20 Estimate £M	2020/21 Estimate £M
General Fund	73.2	103.1	75.4	88.9
HRA	7.5	25.0	28.3	25.6
Total Expenditure	80.7	128.1	103.7	114.5
Capital receipts	(26.6)	(18.2)	(10.0)	(8.0)
Capital Receipts Reserve	-	(22.0)	-	-
Grants and contributions	(45.0)	(38.4)	(31.0)	(58.0)
Revenue contributions	(1.6)	-	-	-
Borrowing	-	(24.5)	(34.4)	(22.9)
General Fund sub-total	(73.2)	(103.1)	(75.4)	(88.9)
Capital receipts	(2.2)	(5.4)	(5.0)	(11.4)
Reserves	(5.3)	(8.1)	(16.4)	(7.1)
Revenue contributions	-	(11.5)	(6.9)	(7.1)
HRA sub-total	(7.5)	(25.0)	(28.3)	(25.6)
Total Financing	(80.7)	(128.1)	(103.7)	(114.5)

(b) Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M
General Fund	354.3	395.3	424.0	440.8
HRA	164.9	164.8	164.5	164.0
Total CFR	519.2	560.1	588.5	604.8

The CFR is forecast to rise by £85.6M over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

(c) Gross Debt and the Capital Financing Requirement

The Prudential Code states that the Director of Resources should make arrangements for monitoring with respect to gross debt and the Capital Financing Requirement (CFR) such that any deviation is reported, since any such deviation may be significant and should lead to further investigation and action as appropriate.

In order to ensure that over the medium term debt will only be for a capital purpose, the Council 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. This a key indicator of prudence.

The Council has had no difficulty meeting this requirement nor are any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M
CFR	519.2	560.1	588.5	604.8
Borrowing	301.7	436.2	492.2	514.3
PFI liabilities	16.5	15.7	15.3	14.9
Gross Debt	318.2	451.9	507.5	529.2
Usable reserves	138.4	78.2	51.0	45.6
Working capital	62.6	30.0	30.0	30.0
Borrowed in excess of CFR? (Yes/No)	No	No	No	No

(d) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an affordable borrowing limit, irrespective of their indebted status, referred to as the Authorised Limit. It is the maximum amount of debt that the Council can legally owe. This is a statutory limit which should not be breached.

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 for unusual cash movements.

The Council confirms that there were no breaches in either the Authorised Limit or the Operational Boundary during the first six months of 2018/19, where the maximum extent of external borrowing was £318.0M (as at 3 April 2018).

	Authorised Limit for 2018/19 £M	Operational Boundary for 2018/19 £M	Actual External Debt as at 30/09/2018 £M
Borrowing	586.4	576.4	299.4
Other long-term liabilities	16.7	16.2	16.5
Total	603.1	592.6	315.9

(e) 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 financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Actual %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	6.2	6.4	6.8	7.0
HRA	13.3	14.0	13.6	13.0

It measures the proportion of the revenue budget that is required to meet the ongoing financing costs of past capital expenditure which was funded from borrowing. Future year estimates incorporate the additional financing costs of planned capital expenditure to be funded from borrowing. It is important that the total capital investment of the Council remains within sustainable limits. However, the level of capital investment that can be supported will be a matter for local decision.

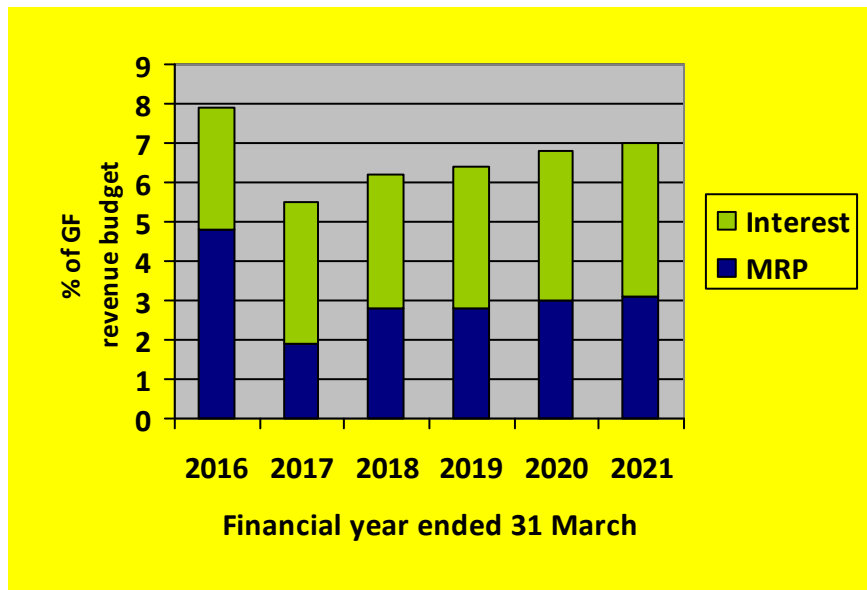
The Prudential Indicators are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparable performance indicators. Nonetheless, it is interesting to note that Central Bedfordshire's Ratio of Financing Costs to Net Revenue Stream (General Fund) is lower than most of its nearest local authority neighbours due, in part, to the recent change in methodology for calculating the Council's Minimum Revenue Provision (MRP):

	2016/17	2017/18
Milton Keynes	11.0%	9.7%
Luton	7.7%	7.4%
Northamptonshire	7.4%	7.0%
Cambridgeshire	7.0%	7.2%
Central Bedfordshire	5.3%	6.2%
Buckinghamshire	4.6%	4.9%
Bedford	3.2%	2.9%

* Comparative figures have been sourced from each local authority's treasury management reports published on the internet.

Central Bedfordshire's ratio is expected to increase relative to its peers given the Council's significant commitment to capital investment over the next few years.

The impact of the recent change in methodology for calculating the Council's Minimum Revenue Provision (MRP) is shown by the reduction in 2016/17 relative to the previous year. However, the growing impact of borrowing to fund new capital expenditure is illustrated from 2016/17 onwards, with MRP and interest costs taking up an increasingly greater proportion of the Council's net revenue budget over time:



The Council will need to carefully consider this increasing cost when determining its future plans for capital expenditure.

(f) Housing Revenue Account (HRA) Debt

The purpose of this limit is to report the level of debt imposed on the Council at the time of the implementation of self-financing by the Ministry of Housing, Communities and Local Government (MHCLG).

	31/03/2018 Actual £M	31/03/2019 Estimate £M	31/03/2020 Estimate £M	31/03/2021 Estimate £M
HRA Debt Cap (as prescribed by the MHCLG)	165.0	165.0	165.0	165.0
HRA CFR	164.9	164.8	164.5	164.0
Difference	0.1	0.2	0.5	1.0

It should be noted that the HRA's Business Plan includes provision for the repayment of debt which occurred for the first time in 2017/18.

(g) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed, are outlined in the table below.

The Council confirms that there were no breaches to either of the upper limits during the first six months of 2018/19, where the upper limit of variable rate exposure was 24% (as at 3 April 2018).

	2018/19 %	2019/20 %	2020/21 %
Upper limit on fixed rate exposure	100	100	100
Actual exposure as at 30/09/2018	77		
Upper limit for variable rate exposure	50	50	50
Actual exposure as at 30/09/2018	23		

(h) 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.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/9/2018 %	Compliance with Set Limits?
Under 12 months	20	0	6	Yes
12 months and within 24 months	20	0	0	Yes
24 months and within 5 years	60	0	1	Yes
5 years and within 10 years	100	0	35	Yes
10 years and within 15 years	100	0	22	Yes
15 years and within 20 years	100	0	9	Yes
20 years and above	100	0	27	Yes

(The CIPFA Treasury Management Code requires the Prudential Indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e., the next call date).

(i) Upper limit for total principal sums invested for periods longer than 365 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

The Council confirms that there was no breach in the £10M limit during the first six months of 2018/19, given that no investments for a period of longer than 365 days were entered into.

	2018/19 £M	2019/20 £M	2020/21 £M
Upper limit for total principal sums invested over 365 days	10	10	10
Actual as at 30 September 2018	0		

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* The Council holds an investment in Aviva Investors' Lime Property Fund Unit Trust (valued at £5.6m as at 30 September 2018). This investment has delivered a reasonably stable income return of around 5% p.a. over recent years and the Council intends to retain this investment for the long term. However, it does not feature in the above Actual column on the basis that it does not have a specified maturity date and could be liquidated within an estimated 3-month timescale if necessary.