

Prudential Code Indicators and Borrowing Limits for 2017/18 to 2021/22

C1 Introduction

C1.1 Through the Local Government Act 2003, the prudential framework for local authority capital investment was introduced in 2004/05. Essentially this meant that authorities could determine their own programmes and borrowing for capital investment without first obtaining consent from Central Government. However, any borrowing must be done with reference to the Prudential Code. The Code requires the setting (and revision) of prudential indicators to ensure that any borrowing undertaken is:

- Affordable
- Prudent and
- Sustainable.

C2 The Prudential Indicators

Capital Expenditure

C2.1 This represents the basic building block for the Indicators as it sets out the spending plans for the authority, split between the HRA and the General Fund, as required by the Code (Table C1).

Table C1 Projected Capital Expenditure

Capital Expenditure	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
HRA	32.281	51.472	115.930	116.580	139.840
General Fund	98.821	141.210	145.379	74.877	26.917
Total	131.102	192.682	261.309	191.457	166.757

Capital Financing

C2.2 Table C2 sets out the resources to be applied in meeting the spending plans shown in Table C1 above.

Table C2 Capital Expenditure Financing

Capital Financing	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Supported Borrowing	0.064	1.267	0.197	-	-
Prudential Borrowing	18.562	35.179	74.255	60.132	72.775
Grants & Other Contributions	92.694	121.398	89.007	81.475	59.570
Capital Receipts	19.782	34.838	97.880	49.850	34.412
Total	131.102	192.682	261.309	191.457	166.757

C2.3 Supported borrowing represents borrowing for which the Council receives revenue support from Central Government to meet the cost of the repayment.

C2.4 Prudential borrowing is unsupported, but is financed from identified revenue streams.

C2.5 As required by the Code, all borrowing is undertaken in accordance with the Council's integrated treasury management strategy.

Capital Financing Requirement

C2.6 This represents the amount of capital spending that has not yet been, nor is planned to be, financed by capital receipts or other grants/contributions. It is, therefore, the measure of an authority's underlying need to borrow to finance both past and future capital expenditure (Table C3).

Table C3 Capital Financing Requirement

Capital Financing Requirement	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
HRA	334.630	334.630	361.780	398.850	465.100
General Fund	309.961	339.411	379.372	395.381	394.413
Total	644.591	674.041	741.152	794.231	859.513

C2.7 In accordance with best practice, Greenwich does not associate borrowing with particular items of expenditure. The Council has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Net Borrowing

- C2.8 In order to ensure that, over the medium term, borrowing will only be for a capital purpose, the Code required authorities to ensure that net borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates for the current and next two years.
- C2.9 The Chief Finance Officer confirms that no difficulties are envisaged in complying with this requirement, as evidenced in Table C4 below.

Table C4 – Golden Rule (Borrowing must be less than Capital Financing Requirement in the medium term)

Golden Rule	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Gross Borrowing	415.391	441.472	512.439	567.734	637.054
Capital Financing Requirement	644.591	674.041	741.040	793.689	858.235

Financing Costs

- C2.10 It is necessary to consider the affordability of the planned capital expenditure. Financing costs relate to principal and interest charges. The Code requires financing costs to be expressed as a % of the Net Revenue Stream for both the HRA and the General Fund, where the revenue stream is the amount to be met from Government Grants and tax / rent payers (Table C5).

Table C5 – Financing Ratios

Financing Ratios	2017/18	2018/19	2019/20	2020/21	2021/22
HRA	13.19%	13.22%	14.18%	15.16%	16.84%
General Fund	6.40%	8.37%	9.09%	9.64%	9.79%

- C2.11 The estimated future financing costs are factored into the authority's budget.

External Debt

- C2.12 Authorities are required to set an authorised limit for their external debt (Table C6). The recommended limits are set out in the table below and are based on current commitments and plans and accord with treasury

management policy. They allow sufficient headroom for operational management (e.g. undertaking any debt restructuring).

Table C6 Authorised External Debt Limits

Authorised External Debt	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Borrowing	764.701	803.873	867.477	929.095	989.965
Other I-t liabilities	139.390	136.168	133.063	130.594	127.770
Authorised Limit	904.091	940.041	1,000.540	1,059.689	1,117.735

C2.13 The authorised limit will represent the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

C2.14 The Council also sets an operational boundary for external debt (Table C7). This is based on the same estimates as the authorised limit in Table C6 but without the additional headroom for unusual cash movements. It, therefore, equates to a prudent level for debt as projected by current estimates.

Table C7 Operational External Debt Limits

Operational External Debt	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Borrowing	525.201	557.873	627.977	683.095	750.465
Other I-t liabilities	129.390	126.168	123.063	120.594	117.770
Operational Boundary	654.591	684.041	751.040	803.689	868.235