APPENDIX B

Prudential Indicator Performance Report 2017/18

Introduction: The Local Government Act 2003 requires the Isle of Wight Council 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 council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2017/18. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2017/18 Estimate £m	2017/18 Actual £m	Difference £m
Total Expenditure	**115.4**	**72.3**	**43.1**
Capital Receipts	17.6	1.6	16
Government Grants	9.2	9.8	(0.6)
Reserves	0.2	0.7	(0.5)
Revenue	-	-	-
Borrowing	88.4	39.7	48.7
Leasing and PFI	-	20.5	(20.5)
Total Financing	**115.4**	**72.3**	**43.1**

The reduction in capital spend is due to the £50 million property investment that was included in the estimated figures, but which was not incurred in 2017/18.

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

Capital Financing Requirement	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
Total CFR	**416.0**	**360.7**	**55.3**

The CFR fell by £55.3million as capital expenditure financed by debt outweighed resources put aside for debt repayment.

Actual Debt: The Council's actual debt at 31 March 2018 was as follows:

Debt	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
Borrowing	248.6	169.1	79.5
Finance leases	0.2	0.4	(0.2)
PFI liabilities	101.6	101.8	(0.2)
Total Debt	**350.4**	**271.3**	**79.1**

Gross Debt and the Capital Financing Requirement: 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 capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and CFR	31.03.18 Estimate £m	31.03.18 Actual £m
Total debt	350.4	271.3
Capital financing requirement	416.0	360.7
Headroom	**65.6**	**89.4**

Total debt remained below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council'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 Council's debt.

Operational Boundary and Total Debt	31.03.18 Boundary £m	31.03.18 Actual Debt £m	Complied
Borrowing	314.2	169.1	✓
Other long-term liabilities	101.8	102.2	X
Total Debt	**416.0**	**271.3**	✓

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

Authorised Limit and Total Debt	31.03.18 Boundary £m	31.03.18 Actual Debt £m	Complied
Borrowing	344.2	169.1	✓
Other long-term liabilities	101.8	102.2	x
Total Debt	**446.0**	**271.3**	✓

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	31.03.18 Estimate %	31.03.18 Actual %	Difference %
General Fund	7.5%	**5.3%**	2.1%

Adoption of the CIPFA Treasury Management Code: The Council originally adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (as subsequently updated) in February 2011.