

## Revision to Prudential Indicators

<b>Portfolio</b>	Non Executive Function
Ward(s) Affected:	n/a

### **Purpose**

**To change the Council's Prudential Indicators to permit further borrowing to allow investment in property in furtherance of Key Priority 2**

## **1. Key Issues**

- 1.1. The increase in Prudential Indicators does not commit the Council to borrow – this is a decision based on whether there is property to invest in and its financial return.
- 1.2. Key Priority 2 commits the Council to invest to make money and this supports that aim.
- 1.3. By law only Full Council can approve changes to the Prudential Indicators. This is to ensure that all Members approve the borrowing limits of the Council.

## **2. Options**

- 2.1. Members can accept, reject or amend the proposal.

## **3. Proposal**

- 3.1. It is proposed that the Council approve the setting of the Level of External Debt and the Prudential Indicators as set out in Annex.

## **4. Corporate Objectives And Key Priorities**

- 4.1. The proposal supports Key Priority 2.

## **5. Risk Management**

- 5.1. When entering into borrowing the Council must be confident not only that the interest can be serviced but also that the debt can be repaid through the mechanism of a Minimum Revenue Payment (MRP). This risk is minimised by only investing in assets which comply with the Asset Investment Strategy. However it does not eliminate the risk entirely. If the Council is unable to service the debt there is a risk that this will fall on the General Fund and hence have an impact on the Council's ability to deliver services.

- 5.2. The Council can minimise its interest rate risk by borrowing on a fixed basis for the longest possible period. This however reduces the financial return. The Council is working with its financial advisors on its borrowing strategy to try to increase returns whilst reducing risk.

## **6. Legal Issues**

- 6.1. Only Full Council can approve changes to the Prudential Indicators.

## **7. Resource Implications**

- 7.1. By taking advantage of low interest rates the Council will be able to make a return to support services. Property investment can only be done in accordance with the Asset Acquisition Strategy which stipulates that a net return of at least 2% must be achieved for it to be considered for investment. This means that were the whole £35m increase invested the Council must achieve a minimum return of £700k otherwise the purchases will not be made.
- 7.2. The Council is able to fix its loans for any period up to 50 years. The Council will take the advice of its professional treasury advisors, Arling Close, to put the most cost effective borrowing in place.

## **8. Recommendation**

- 8.1. The Council is advised to RESOLVE that the setting of the level of External Debts and the Prudential Indicators be approved as set out in Annex A.

Annexes: Setting of Prudential Indicators

Background Papers: None

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