

CABINET – PUBLIC QUESTION

31 October 2017

2. Public Question from Toby Eckersley

What are the current government-imposed housing revenue account (HRA) and other borrowing limits and how much leeway is there for Southwark to increase borrowings under each relevant limit?

Response by Cabinet Member for Finance, Modernisation and Performance

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 2011* 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 decisions are taken in accordance with good professional practice.

The two primary restrictions on local government borrowing are the:

- HRA Indebtedness Limit
- Authorised Limit for External Debt

Our headroom for borrowing, in accordance with the prudential code is set out below:

- £184m Housing Revenue purposes
- £637m for General Fund

Please see below for further information on this headroom.

HRA Indebtedness Limit

The maximum limit for HRA indebtedness for Southwark Council specified in the Department for Communities and Local Government's *'Limits on Indebtedness Determination 2012'* is £577m.

The level of HRA indebtedness is equal to the capital financing requirement (CFR) for the HRA. The CFR is the accumulated total of all capital expenditure that is not financed by any of the following:

- I. useable capital receipts
- II. capital grants
- III. contributions from the revenue budget
- IV. third part contributions.

This is therefore a reflection of the council's need to finance capital expenditure by borrowing or other long term liability arrangements.

The CFR for the HRA as at 31 March 2017 was £393m, leaving a headroom of £184m.

Authorised Limit

The Local Government Act 2003 requires a local authority to determine how much money it can afford to borrow. This is set out in the *Prudential Code for Capital Finance in Local Authorities* as the Authorised Limit.

Each year the council is required to determine the extent of external debt, beyond which would be unlikely to be sustainable. This is agreed by council assembly as part of the treasury management strategy.

For the financial year 2017-18 the authorised limit was set at £1,205m, the actual level of external borrowing, including other long term liabilities as at 31 March 2017 was £568m, leaving borrowing headroom of £637m for the council as a whole.

The cost of any borrowing is charged to the general fund or housing revenue account as appropriate, both of which are subject to ongoing funding reductions and cost pressures.

Therefore, capital plans for the council are carefully considered in order to maximise the benefit to service users whilst limiting any costs for council tax payers or housing tenants arising from these additional financing costs. As such the council seeks to maximise the use of alternative funding sources; such as capital grants, third part contributions such as section 106 receipts and internal borrowing.

1 Quarterly report
to Jan^{Feb} cabinet -