

Appendix 3

Prudential Indicators 2019/20 to 2021/22

1. Capital Expenditure Plans

- 1.1 The council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. The plans are consistent with the latest Medium Term Capital Programmes (MTCP) for the General Fund, including the Princes Parade leisure centre scheme, and the Housing Revenue Account (HRA), being considered by Cabinet as part of the budget process for 2019/20 and to be submitted to full Council for approval on 20 February 2019. Both the General Fund and HRA capital programmes require some prudential borrowing to fund future capital expenditure plans and this is reflected in the borrowing limits being proposed as part of these indicators.
- 1.2 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as future capital receipts and revenue resources to fund capital, may also be subject to change over this timescale. To mitigate this risk capital schemes to be funded from future capital resources will not be allowed to commence until these sums have been received or confirmed.
- 1.3 **The Council is asked to approve the summary capital expenditure projections below.** This forms the first prudential indicator:

Prudential Indicator 1 – Capital Expenditure Projections

| £'000 | 2018/19 Projection | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|----------------------------|-----------------------|---------------------|---------------------|---------------------|
| Capital Expenditure | | | | |
| General Fund Services | 4,430 | 4,898 | 8,979 | 16,742 |
| Capital Investments | 3,286 | 11,707 | 9,259 | - |
| HRA | 6,476 | 8,325 | 7,838 | 6,908 |
| Total | 14,192 | 24,930 | 26,076 | 23,650 |
| Funded by: | | | | |
| External Resources | (1,006) | (3,656) | (4,669) | (1,269) |
| Internal Resources | (9,636) | (9,645) | (7,893) | (21,124) |
| Debt | (3,550) | (11,629) | (13,514) | (1,257) |
| Total | (14,192) | (24,930) | (26,076) | (23,650) |

2. The Council's Borrowing Need (The Capital Financing Requirement)

2.1 The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need. Any capital expenditure, above, which has not immediately been paid for will increase the CFR. The CFR projections now include the borrowing requirement identified in Prudential Indicator 1, above.

2.2 The CFR does not increase indefinitely as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

2.3 **The Council is asked to approve the Capital Financing Requirement (CFR) projections below:**

Prudential Indicator 2 – CFR Projections

| £'000 As at 31 st March | 2018/19 Projection | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---------------------------------------|-----------------------|---------------------|---------------------|---------------------|
| CFR – Non Housing | 21,303 | 32,574 | 45,541 | 45,262 |
| CFR - Housing | 47,416 | 47,416 | 47,619 | 48,161 |
| Total CFR | 68,719 | 79,990 | 93,160 | 93,423 |
| Movement in CFR | 3,177 | 11,271 | 13,170 | 263 |

| Movement in CFR represented by | | | | |
|--|--------------|---------------|---------------|------------|
| Net financing need for the year (P.I. 1) | 3,550 | 11,629 | 13,514 | 1,257 |
| Less MRP | (373) | (358) | (344) | (994) |
| Less HRA financing movement | - | - | - | - |
| Movement in CFR | 3,177 | 11,271 | 13,170 | 263 |

3. Gross Debt and the Capital Financing Requirement

- 3.1 In order to ensure that over the medium term debt will only be for a capital purpose, the authority 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.

Prudential Indicator 3 – Debt to CFR Projections

| Debt | 31.03.19 Revised £m | 31.03.20 Estimate £m | 31.03.21 Estimate £m | 31.03.22 Estimate £m |
|------|---------------------------|----------------------------|----------------------------|----------------------------|
| Debt | 55.8 | 60.2 | 78.3 | 82.4 |
| CFR | 68.7 | 80.0 | 93.2 | 93.4 |

- 3.2 Total debt is expected to remain below the CFR during the forecast period.

4. Borrowing Limits

- 4.1 **Operational Boundary for External Debt** - This is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority'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 Authority's debt.

Prudential Indicator 4 – Operational Boundary Borrowing Limit

| Operational Boundary | 2018/19 Revised £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m |
|-----------------------------|--------------------------|---------------------------|---------------------------|---------------------------|
| Borrowing | 83.3 | 94.0 | 94.9 | 93.9 |
| Other long-term liabilities | - | - | - | - |
| Total Debt | 83.3 | 94.0 | 94.9 | 93.9 |

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

Prudential Indicator 5 – Authorised Borrowing Limit

| Authorised Limit | 2018/19 Limit £m | 2019/20 Limit £m | 2020/21 Limit £m | 2021/22 Limit £m |
|-----------------------------|------------------------|------------------------|------------------------|------------------------|
| Borrowing | 90.0 | 96.5 | 97.4 | 96.4 |
| Other long-term liabilities | - | - | - | - |
| Total Debt | 90.0 | 96.5 | 97.4 | 96.4 |

5. Affordability Prudential Indicators

5.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall council's finances. **The Council is asked to approve the following indicators:**

5.2 **Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The revenue stream for non-HRA is the amount to be met from government grant and council tax payers and for the HRA is rent and other income.

Prudential Indicator 6 - Ratio of financing costs to net revenue stream

| % | 2018/19 Projection | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---------|-----------------------|---------------------|---------------------|---------------------|
| Non-HRA | 6.6% | 3.9% | 2.1% | 5.8% |
| HRA | 26.7% | 30.2% | 34.3% | 25.9% |

5.3 The estimates of financing costs include current commitments and the proposals in both the General Fund and HRA revenue and capital budget reports. The changes to the Non-HRA figures mainly reflect the planned reduction in the use of revenue resources to support the capital investment included in the Medium Term Capital Programme. The changes in the HRA's figures mainly reflect the revenue financing required to meet the cost of the planned capital investment on the 'new build' and acquisitions programme.

5.4 Local Indicators - HRA Debt Ratios

- 5.4.1 CIPFA's Prudential Code recommends the use of local indicators to measure the affordability and sustainability of the HRA's debt over the medium term. The following two local indicators consider the total level of HRA debt and how its proportion is changing over the next three year period. Both these indicators are consistent with the HRA Business Plan and the increase in borrowing required to fund its capital expenditure plans.

i) HRA Debt to Revenue Ratio

| | 2018/19 Projection | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|
| HRA debt £m | 48.6 | 47.5 | 46.4 | 45.9 |
| HRA revenues £m | 16.0 | 16.3 | 16.5 | 17.2 |
| Ratio of debt to revenues | 3.0 | 2.9 | 2.8 | 2.7 |

ii) HRA Debt per Dwelling

| | 2018/19 Projection | 2019/20 Estimate | 2020/21 Estimate | 2021/21 Estimate |
|------------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|
| HRA debt £m | 48.6 | 47.5 | 46.4 | 45.9 |
| Number of HRA dwellings | 3,394 | 3,394 | 3,439 | 3,424 |
| Debt per dwelling £'000 | 14.3 | 14.0 | 13.5 | 13.4 |