

Appendix 3

Prudential Indicators 2017/18 to 2019/20

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 covered in this report and the Housing Revenue Account (HRA), due to be considered by Cabinet in a separate report on today's agenda. The HRA capital programme requires prudential borrowing to fund future capital expenditure plans and this is reflected in the borrowing limits being proposed as part of these indicators and is also covered in the Treasury Management Strategy also due to be considered by Cabinet in a separate report on today's agenda.
- 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	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Expenditure				
Non-HRA	8,900	6,333	1,003	1,003
HRA	8,918	8,098	8,879	9,357
Total	17,818	14,431	9,882	10,360
Funded by:				
Capital receipts	(3,051)	(2,319)	(100)	(100)
Capital grants	(3,858)	(3,340)	(765)	(765)
Capital reserves	-	-	-	-
Revenue (GF)	(3,655)	(2,190)	(138)	(138)
Major Repairs Reserve (HRA)	(3,070)	(2,820)	(3,952)	(4,051)
Revenue (HRA)	(4,184)	(3,762)	(2,813)	(2,448)

Net financing need for the year	-	-	2,114	2,858
--	---	---	--------------	--------------

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	2016/17	2017/18	2018/19	2019/20
As at 31st March	Projection	Estimate	Estimate	Estimate
CFR – Non Housing	17,346	16,957	16,584	16,225
CFR - Housing	47,417	47,417	49,531	52,389
Total CFR	64,763	64,374	66,115	68,614
Movement in CFR	(405)	(389)	1,741	2,499

Movement in CFR represented by				
Net financing need for the year (P.I. 1)	-	-	2,114	2,858
Less MRP	(405)	(389)	(373)	(359)
Less HRA financing movement	-	-	-	-
Movement in CFR	(405)	(389)	1,741	2,499

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.

Debt	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing	59.5	57.8	55.9	54.8
Other long-term liabilities	-	-	-	-
Total Debt	59.5	57.8	55.9	54.8
CFR	64.8	64.4	66.1	68.6

- 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.

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	65.0	65.0	66.7	69.2
Other long-term liabilities	-	-	-	-
Total Debt	65.0	65.0	66.7	69.2

- 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.

Authorised Limit	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Borrowing	68.0	69.9	72.1	75.4
Other long-term liabilities	-	-	-	-
Total Debt	68.0	69.9	72.1	75.4

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 3 - Ratio of financing costs to net revenue stream

%	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	27.08	18.38	3.10	2.68
HRA	36.13	33.57	26.72	24.27

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 reflect 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 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with *new schemes* introduced to the Medium Term Capital Programme recommended in the budget report compared to the council’s existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.

Prudential Indicator 4 - Incremental impact of capital investment decisions on the Band D Council Tax

£	Proposed Budget 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Council Tax - Band D	0.02	0.02	0.00

- 5.5 These values reflect the loss of interest, the opportunity cost, for the council’s cash reserves and balances, anticipated to be used to fund its new capital investment plans included in the Medium Term Capital Programme.

- 5.6 **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council Tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the budget report compared to the council’s existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Prudential Indicator 5 - Incremental impact of capital investment decisions Housing Rent levels

Impact per property per rent week	Proposed Budget 2017/18	Forward Projection 2018/19	Forward Projection 2019/20
Weekly Housing Rent levels	(£1.07)	(£1.79)	(£2.45)

- 5.7 This indicator shows the revenue impact of the latest HRA capital programme on the average weekly housing rent for the HRA. This indicator reflects the additional rental income the council is forecast to receive from the HRA’s new

build and housing acquisitions programme. The new build programme is expected to generate a net surplus for the HRA which, in turn, will contribute to the planned repayment of its debt over the 30 year life of the current business plan.

5.8 Local Indicators - HRA Debt Ratios

5.8.1 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

	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	50.5	49.6	50.7	52.5
HRA revenues £m	16.8	16.0	16.4	16.4
Ratio of debt to revenues	3.0	3.1	3.1	3.2

ii) HRA Debt per Dwelling

	2016/17 Projection	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	50.5	49.6	50.7	52.5
Number of HRA dwellings	3,372	3,393	3,421	3,448
Debt per dwelling £'000	14.98	14.61	14.83	15.23