

Appendix 3

Prudential Indicators 2018/19 to 2020/21

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 and the Housing Revenue Account (HRA), previously considered by Cabinet in separate reports as part of the budget process for 2018/19 and submitted to full Council for approval later today. 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 and is also covered earlier section 4 of the main Treasury Management Strategy Statement.
- 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	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Expenditure				
Non-HRA	3,493	13,629	30,478	7,934
HRA	10,132	8,574	9,330	9,751
Total	13,265	22,203	39,808	17,865
Funded by:				
Capital receipts	(2,296)	(2,447)	(14,400)	(5,100)
Capital grants	(2,327)	(5,090)	(3,265)	(1,858)
Capital reserves	-	-	-	-
Revenue (GF)	(1,490)	(1,112)	(138)	(138)
Major Repairs Reserve (HRA)	(3,397)	(3,500)	(4,233)	(4,318)
Revenue (HRA)	(3,726)	(3,566)	(2,921)	(2,497)

Net financing need for the year	389	6,488	14,851	3,774
--	------------	--------------	---------------	--------------

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	2017/18	2018/19	2019/20	2020/21
As at 31st March	Projection	Estimate	Estimate	Estimate
CFR – Non Housing	18,452	24,566	36,883	37,265
CFR - Housing	47,417	47,417	49,593	52,529
Total CFR	65,869	71,983	86,476	89,794
Movement in CFR	-	6,114	14,493	3,318

Movement in CFR represented by				
Net financing need for the year (P.I. 1)	389	6,488	14,851	3,774
Less MRP	(389)	(374)	(358)	(456)
Less HRA financing movement	-	-	-	-
Movement in CFR	-	6,114	14,493	3,318

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	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing	57.8	55.9	68.2	75.1
Other long-term liabilities	-	-	-	-
Total Debt	57.8	55.9	68.2	75.1
CFR	65.9	72.0	86.5	89.8

- 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	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	65.9	87.0	91.0	94.0
Other long-term liabilities	-	-	-	-
Total Debt	65.9	72.5	91.0	94.0

- 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	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	69.9	90.0	93.3	96.4
Other long-term liabilities	-	-	-	-
Total Debt	69.9	90.0	93.3	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 3 - Ratio of financing costs to net revenue stream

%	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non-HRA	13.7%	10.0%	3.9%	5.3%
HRA	33.3%	32.1%	26.3%	22.6%

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 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 **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 2018/19	Forward Projection 2019/20	Forward Projection 2020/21
Council Tax - Band D	(£1.22)	(£1.46)	(£1.10)

- 5.5 These values reflect the net General Fund savings forecast to be received from the council’s 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 2018/19	Forward Projection 2019/20	Forward Projection 2020/21
Weekly Housing Rent levels	(£1.09)	(£1.88)	(£2.62)

- 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

	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA debt £m	49.6	48.4	49.7	51.3
HRA revenues £m	16.0	16.2	16.8	17.4
Ratio of debt to revenues	3.1	3.0	3.0	3.0

ii) HRA Debt per Dwelling

	2017/18 Projection	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA debt £m	49.6	48.4	49.7	51.3
Number of HRA dwellings	3,393	3,371	3,396	3,421
Debt per dwelling £'000	14.6	14.4	14.6	15.0