

Prudential Indicators

A. Capital Expenditure Plans

1. The Council's capital expenditure plans are the key driver of treasury management activity. Estimates of capital expenditure for the period 2018/19 to 2023/24 based on the Council's draft Capital Programme are summarised below and this forms the first of the prudential indicators. The revenue consequences of associated borrowing and any on-going maintenance costs are accommodated within the Council's revenue budgets.
2. Capital expenditure can be paid for immediately, by applying capital resources such as capital receipts, capital grants, external funding or revenue contributions, but if these resources are insufficient any residual expenditure will be covered by Prudential Borrowing and will add to the Council's borrowing need, or Capital Financing Requirement (CFR).
3. The expenditure is split over three areas:
 - Commercial Activities / Non-financial investments
 - Other General Fund
 - HRA
- 215 Estimates of resources such as capital receipts may be subject to uncertainty i.e. anticipated asset sales may be postponed or reduced due to changes in the property market or planning issues.
5. Elsewhere on the agenda the draft Capital Programme is recommended for approval. The table below summarises the proposed expenditure and how it will be financed. Any shortfall of financing results in a borrowing need.

Table 1:- Capital Expenditure and Financing

	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Commercial Activities /							
Non-financial investments	666.6	20,800.1	19,596.4	12,525.0	25,308.0	10,045.0	3,598.0
Other General Fund	18,144.6	20,204.8	32,116.0	20,665.3	10,570.1	9,826.0	2,170.0
HRA	18,899.3	17,441.2	17,769.0	16,803.0	8,263.0	8,721.0	8,221.0
Total expenditure	37,710.5	58,446.1	69,481.4	49,993.3	44,141.1	28,592.0	13,989.0
Financed by:							
Developer Contributions	1,370.7	2,460.5	5,593.8	2,260.0	260.0	0.0	0.0
Capital Grants	5,408.4	3,431.5	2,695.7	1,507.7	1,100.0	1,302.0	1,000.0
Capital Receipts	5,947.3	2,288.9	10,868.6	7,289.5	8,506.3	8,081.0	0.0
Revenue	17,591.8	11,434.3	6,774.3	5,795.4	2,676.8	2,294.0	3,868.0
Major Repairs Reserve	7,087.3	16,458.1	7,934.0	12,620.0	0.0	5,317.0	8,221.0
Sub Total	37,405.5	36,073.3	33,866.4	29,472.6	12,543.1	16,994.0	13,089.0
Prudential Borrowing	305.0	22,372.8	35,615.0	20,520.7	31,598.0	11,598.0	900.0
Total funding	37,710.5	58,446.1	69,481.4	49,993.3	44,141.1	28,592.0	13,989.0

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6. The following table shows how much of the overall capital funding need relates to “commercial activities” and non-financial investments such as loans to the Council’s Companies and expenditure on investment properties.

Table 2:- Commercial Activities and Non-financial investments funding need

Commercial Activities / Non-financial investments	2017/18 Actuals	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure (£000's)	666.6	20,800.1	19,596.4	12,525.0	25,308.0	10,045.0	3,598.0
Percentage of total financing need	1.8%	35.6%	28.2%	25.1%	57.3%	35.1%	25.7%

B. Affordability

7. This indicator represents the estimate of the ratio of financing costs to the net revenue stream for both the HRA and General Fund. The General Fund has net interest income and so the indicator is interpreted such that the larger the negative percentage figure becomes, the more reliant the General Fund is on the net interest income. Note that this includes both investment income and borrowing costs.
8. The HRA has net interest expenditure and this indicator is interpreted such that the larger the positive percentage figure becomes, the more HRA resources are used to finance the net debt costs.

Table 3:- Ratio of Financing Costs to Net Revenue Stream

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General Fund	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Net Interest Income	-2,670.33	-2,364.09	-2,948.06	-3,312.41	-3,168.70	-3,612.09	-3,809.62
Revenue stream	22,858.00	23,369.11	24,175.23	23,846.85	24,004.33	24,495.11	24,909.34
Ratio	-11.7%	-10.1%	-12.2%	-13.9%	-13.2%	-14.7%	-15.3%
Housing Revenue Account	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Item 8 interest	7,701.72	7,701.72	7,701.72	7,701.72	7,701.72	7,701.72	7,701.72
Investment income	-128.96	-125.78	-253.80	-284.04	-314.29	-344.54	-344.54
Net financing cost	7,572.76	7,575.94	7,447.92	7,417.68	7,387.43	7,357.18	7,357.18
Revenue stream	45,316.31	43,241.16	43,162.10	43,426.10	44,505.27	45,605.97	46,733.89
Ratio	16.7%	17.5%	17.3%	17.1%	16.6%	16.1%	15.7%

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

9. This prudential indicator relates to the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic 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 indebtedness and so its underlying borrowing need. Any capital expenditure above in Table 1, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
10. The CFR does not increase indefinitely, as the minimum revenue provision (MRP), which is a statutory annual revenue charge, reduces the indebtedness broadly in line with each assets life, and so charges the economic consumption of capital assets as they are used.

11. The table shows the amount of the CFR which is needed to finance the “commercial activities” / non-financial investments.

Table 4:- Estimates of capital financing requirement (underlying need to borrow for a capital purpose)

	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Commercial Activities / Non-financial investments	305	19,608	35,403	44,663	67,998	76,192	77,092
Other General Fund	25,328	27,829	37,711	44,065	43,093	42,121	41,149
General Fund	25,633	47,437	73,114	88,728	111,091	118,313	118,241
HRA	199,384	199,916	209,751	213,934	222,197	225,581	225,581
Total CFR	225,017	247,353	282,865	302,662	333,288	343,894	343,822
Movement in CFR	268	22,336	35,512	19,797	30,626	10,606	-72
Movement in the CFR represented by:							
Net Financing need for the year	305	22,373	35,615	20,521	31,598	11,578	900
Less MRP	-37	-37	-103	-724	-972	-972	-972
Movement in CFR	268	22,336	35,512	19,797	30,626	10,606	-72

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D. Core Funds and Expected Investment Balances

12. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or used on other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 5:- Core Funds and Expected Investment Balances

Estimated Year End Resources	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Fund Balances & Reserves	62,990	61,990	61,990	61,990	61,990	61,990	61,990
Capital Receipts & Grants	20,343	9,233	8,483	8,283	8,283	8,283	8,283
Provisions	6,589	6,589	6,589	6,589	6,589	6,589	6,589
Other	-122	-122	-122	-122	-122	-122	-122
Total Core Funds	89,800	77,690	76,940	76,740	76,740	76,740	76,740
Working Capital *	16,572	25,486	26,272	27,072	27,872	28,672	29,472
(Under) / Over Borrowing **	-26,174	-48,510	-55,022	-60,819	-70,445	-74,051	-73,979
Expected Investments ***	80,198	54,666	48,190	42,993	34,167	31,361	32,233

* Working capital balances shown are estimated year-end; these may be higher mid-year

219 ** Under / Over Borrowing is the difference between the Council's CFR and external borrowing. The Council maximises use of internal balances where possible to reduce borrowing costs. A level of cash resource must be maintained to ensure that cashflow variations during the year can be accommodated.

***This is the level of expected investments at the end of the year; during the year these will often be much higher due to cashflows.

E. External Debt and Treasury Management

13. The Council's forward projections for borrowing are summarised below. The table shows the anticipated external debt against the underlying capital borrowing need, the CFR.

Table 6:- Debt against Underlying Borrowing Need

External Debt	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Debt at 1st April	198,843	198,843	198,843	227,843	241,843	262,843	269,843
Expected Change in Debt	0	0	29,000	14,000	21,000	7,000	0
Expected Debt at 31 March	198,843	198,843	227,843	241,843	262,843	269,843	269,843
CFR	225,017	247,353	282,865	302,662	333,288	343,894	343,822
Under / (Over) Borrowing	26,174	48,510	55,022	60,819	70,445	74,051	73,979

14. The Council must set an operational boundary which is the limit beyond which external debt is not normally expected to exceed. This will be lower than the CFR where the Council uses internal resources to finance borrowing (i.e. is under borrowed). The authorised limit is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not necessarily sustainable in the longer term. This is set here at the level of the CFR to allow for flexibility depending on what happens with borrowing rates and to allow for borrowing in advance where this is supported by the capital plans or the CFR. The authorised limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 7:- Limits to borrowing activity

	2017/18 Actuals £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
Authorised limit	372,118	372,118	363,894	363,894	363,894	363,894	363,894
Operational boundary	240,000	274,000	302,865	322,662	353,288	363,894	363,822

15. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The purpose of this and the following two prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

16. This following indicator links to the Non Specified investment in Appendix 1

Table 10:- Upper limit for principal sums invested for periods longer than 365 days

	2017/18 Actuals	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Upper limit for investments for periods longer than 365 days	Higher of £24m and 25%	Higher of £24m and 25%	Higher of £24m and 25%	Higher of £24m and 25%	Higher of £24m and 25%	Higher of £24m and 25%	Higher of £24m and 25%