

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 2021/22 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. 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.
4. 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

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
Expenditure				
General Fund	65,836.4	36,505.5	28,665.9	15,835.9
HRA	19,390.5	24,246.0	18,723.0	15,747.0
Total expenditure	85,226.9	60,751.5	47,388.9	31,582.9
Financed by:				
Developer Contributions	3,139.0	750.0	200.0	0.0
Capital Grants	1,811.0	2,272.4	1,000.0	1,000.0
Capital Receipts	19,374.0	11,424.5	13,431.0	3,152.0
Revenue	11,862.4	2,023.6	5,691.9	5,230.3
Major Repairs Reserve	13,958.5	10,246.0	10,433.0	3,101.0
Sub Total	50,144.9	26,716.5	30,755.9	12,483.3
Prudential Borrowing	35,082.0	34,035.0	16,633.0	19,099.6
Total funding	85,226.9	60,751.5	47,388.9	31,582.9

B. Capital Financing Requirement (CFR).

5. The CFR is 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 need to borrow.

Table 2:- Capital Financing Requirement

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
General Fund	73,895	97,893	109,961	120,248
HRA	199,916	209,751	213,934	222,354
	273,812	307,645	323,896	342,602

Movement in CFR	35,019	33,833	16,251	18,707
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C. Ratio of Financing Costs to the Net Revenue Stream

6. This indicator represents the estimate of the ratio of financing costs to the net revenue stream for both the HRA and General Fund.

Table 3:- Ratio of financing costs to net revenue stream

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
General Fund	-10.2%	-12.0%	-12.7%	-13.2%
HRA	17.5%	17.3%	16.9%	16.3%

D. Incremental Impact of Capital Investment Decisions on Council Tax and Rents

Council Tax

7. The estimate of the incremental impact of capital investment decisions on the Council Tax is shown below; it illustrates the impact of capital investment decisions on the Band D Council Tax.
8. The figures in Table 4 below have been calculated by looking at those schemes that are in the current Capital Programme and looking at the impact they will have on Council Tax after taking into account capital receipts, grants and revenue contributions
9. The Council will not enter into any uncommitted capital scheme until the source of funding is confirmed, e.g. Capital receipts, grants, S106 or prudential borrowing. This will ensure we can avoid any unplanned revenue consequences as a result of capital expenditure.

Table 4:- Impact of Capital Expenditure on Council Tax

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
Overall net impact on Council Tax Band D per week	0.52	0.36	0.18	0.16

Housing Rents

10. The estimated incremental impact of capital investment decisions on weekly housing rents is shown in Table 5 below. The figures have been calculated by looking at those schemes that are currently in the Capital Programme and deducting alternate funding resources.

11. The key driver for setting housing rents is legislation.

12. The expenditure on the HRA Capital Programme has the following impact on Council rents:

Table 5:- Impact of Capital Expenditure on Housing Rents

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
Overall net impact on Weekly Housing Rents	0.05	0.87	0.37	0.75

E. Authorised Limit for External Debt

13. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 6:- Authorised Limit for external debt

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
General Fund	131,000	131,000	131,000	131,000
HRA	241,118	241,118	241,118	241,118
Total	372,118	372,118	372,118	372,118

14. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. It is considered prudent to withhold £10m of the borrowing headroom as a contingency for potential changes in capital costs and interest charges although the authorised limit allows for borrowing up to the limit. These limits are:

Table 7: HRA Capital Financing Requirement Limit

HRA Debt Limit	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
Total	241,118	241,118	241,118	241,118

F. Operational Boundary for External Debt

15. This is based on the expected maximum external debt during the course of the year, it is not a limit, and actual external debt can vary around this boundary for short times during the year.

Table 8:- Operational boundary for external debt

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
General Fund	74,000	98,000	110,000	121,000
HRA	200,000	210,000	214,000	223,000
Total	274,000	308,000	324,000	344,000

G. Net Borrowing Compared to the Council's Capital Financing Requirement

16. Table 9 below shows the Council's net borrowing position compared to its Capital Financing Requirement. As can be seen, the figures show that the Council is currently borrowing below its financing requirement which indicates a need to borrow in the medium term. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This allows some flexibility for limited early borrowing for future years.

Table 9:- Borrowing compared to CFR

	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's
Borrowing 31 March	198,528	232,528	250,528	270,528
CFR	273,812	307,645	323,896	342,602
Borrowing v CFR	75,284	75,117	73,368	72,074

H. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Sector

17. The Council can confirm that it has complied with the Code throughout 2017/18 and will continue to do so.

I. Upper Limit on Fixed and Variable Interest Rate Borrowing and Investments

18. 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. This indicator identifies the maximum limit for fixed interest rates based upon the debt position net of investments.

Table 10:- Upper limit on borrowing and investments

	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Upper limit on fixed rate borrowing	100	100	100	100
Upper limit on fixed rate investments	100	100	100	100
Upper limit on variable rate borrowing	100	100	100	100
Upper limit on variable rate investments	100	100	100	100

J. Upper and Lower Limit for the Maturity Structure of Borrowing

19. These are used to reduce the Council's exposure to large fixed rate sums falling due for repayment at the same time.

Table 11:- Upper and lower limit on borrowing maturity

	Estimate Upper %	Estimate Lower %
< 12 months	30	0
12 months up to 2 years	30	0
2 up to 5 years	80	0
5 up to 10 years	100	0
10 years +	100	0

Table 12:- Upper limit for investments longer than 365 days

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 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%

20. The table above shows the upper limit for principle sums invested for periods longer than 365 days; this indicator is used to reduce the need for early sale of an investment, and is based on the availability of funds after each year end. This has been set at 25% (based on the last calendar year) due to the continuing uncertainty of the market and to reduce the risk posed by longer term investments.

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