

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 2019/20 to 2024/25 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
4. 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

	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Commercial Activities / Non-financial investments	522.6	152.4	42,000.0	25,000.0	0.0	0.0	0.0
Other General Fund	28,421.7	44,183.4	55,564.1	43,740.1	27,392.4	34,590.7	8,448.0
HRA	13,589.1	14,913.6	47,913.0	41,428.0	53,647.0	56,732.0	8,620.0
Total expenditure	42,533.4	59,249.4	145,477.1	110,168.1	81,039.4	91,322.7	17,068.0
Financed by:							
Developer Contributions	3,170.0	6,031.9	6,806.2	520.0	60.0	60.0	0.0
Capital Grants	2,634.8	4,201.9	5,986.6	11,825.8	7,044.0	6,100.0	1,200.0
Capital Receipts	19,592.0	21,387.5	35,401.4	14,426.4	11,500.8	12,186.0	1,918.0
Revenue	5,740.4	5,345.9	6,748.2	3,907.0	2,869.2	3,804.0	4,681.0
Major Repairs Reserve	7,215.9	0.0	3,673.6	20,914.6	4,079.3	1,760.0	8,364.2
Sub Total	38,353.1	36,967.2	58,615.9	51,593.8	25,553.4	23,910.0	16,163.2
Prudential Borrowing	4,180.3	22,282.3	86,861.1	58,574.4	55,486.0	67,412.7	904.8
Total funding	42,533.4	59,249.4	145,477.1	110,168.1	81,039.4	91,322.7	17,068.0

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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	2018/19 Actuals	2019/20 Forecast	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure (£000's)	522.6	152.4	42,000.0	25,000.0	0.0	0.0	0.0
Percentage of total financing need	1.2%	0.3%	28.9%	22.7%	0.0%	0.0%	0.0%

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

General Fund	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Net Interest Income	-1,811.09	-2,643.09	-3,135.79	-2,734.55	-2,744.11	-3,084.85	-3,129.47
Revenue stream	24,492.91	24,063.30	24,229.42	22,295.84	22,696.69	23,008.56	23,433.74
Ratio	-7.4%	-11.0%	-12.9%	-12.3%	-12.1%	-13.4%	-13.4%
Housing Revenue Account	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Item 8 interest	7,701.72	7,701.72	8,294.09	8,041.84	9,621.84	11,565.44	11,565.65
Investment income	-153.00	223.55	237.36	284.04	347.16	344.53	344.53
Net financing cost	7,548.72	7,925.28	8,531.45	8,325.88	9,969.00	11,909.97	11,910.19
Revenue stream	43,341.06	43,776.00	44,447.00	46,595.00	49,043.00	51,752.00	51,752.00
Ratio	17.4%	18.1%	19.2%	17.9%	20.3%	23.0%	23.0%

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)

	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Commercial Activities / Non-financial investments	0	0	0	0	0	0	0
Other General Fund	22,000	44,245	115,439	165,362	179,867	200,905	200,554
General Fund	22,000	44,245	115,439	165,362	179,867	200,905	200,554
HRA	202,708	202,708	218,084	226,006	266,006	311,206	311,211
Total CFR	224,708	246,953	333,523	391,368	445,873	512,111	511,765
Movement in CFR	4,143	22,245	86,570	57,845	54,505	66,238	-346
Movement in the CFR represented by:							
Net Financing need for the year	4,180	22,282	86,861	58,574	55,486	67,412	905
Less MRP	-37	-37	-291	-729	-981	-1,174	-1,251
Movement in CFR	4,143	22,245	86,570	57,845	54,505	66,238	-346

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	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Fund Balances & Reserves	76,423	62,797	62,797	62,797	62,797	62,797	62,797
Capital Receipts & Grants	14,394	11,200	10,450	10,250	10,250	10,250	10,250
Provisions	8,334	8,334	8,334	8,334	8,334	8,334	8,334
Other	346	346	346	346	346	346	346
Total Core Funds	99,497	82,677	81,927	81,727	81,727	81,727	81,727
Working Capital *	22,686	31,600	32,386	33,186	33,986	34,786	35,586
(Under) / Over Borrowing **	-25,887	-48,132	-87,702	-91,547	-89,052	-92,290	-91,939
Expected Investments ***	96,296	66,145	26,611	23,366	26,661	24,223	25,374

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

** 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	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Debt at 1st April	198,821	198,821	198,821	245,821	299,821	356,821	419,821
Expected Change in Debt	0	0	47,000	54,000	57,000	63,000	5
Expected Debt at 31 March	198,821	198,821	245,821	299,821	356,821	419,821	419,826
CFR	224,708	246,953	333,523	391,368	445,873	512,111	511,765
Under / (Over) Borrowing	25,887	48,132	87,702	91,547	89,052	92,290	91,939

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

	2018/19 Actuals £000's	2019/20 Forecast £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Authorised limit	372,118	532,111	532,111	532,111	532,111	532,111	532,111
Operational boundary	274,000	302,865	353,523	411,368	465,873	532,111	531,765

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.

Table 8:- Maturity Structure of Borrowing

	Estimate Upper %	Estimate Lower %
< 12 months	10%	0
12 months up to 2 years	10%	0
2 up to 5 years	10%	0
5 up to 10 years	20%	0
10 up to 20 years	40%	0
20 up to 30 years	40%	0
30 up to 40 years	40%	0
40 years +	60%	0

Table 9:- Upper limit on fixed and variable interest rate borrowing and investments

	2018/19 Actuals %	2019/20 Forecast %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
Upper limit on fixed rate borrowing	100	100	100	100	100	100	100
Upper limit on fixed rate investments	100	100	100	100	100	100	100
Upper limit on variable rate borrowing	100	100	100	100	100	100	100
Upper limit on variable rate investments	100	100	100	100	100	100	100

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

	2018/19 Actuals	2019/20 Forecast	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Upper limit for investments for periods longer than 365 days	Higher of £24m and 25%	Higher of £24m and 25%	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%