Prudential indicators

The Council has adopted the Prudential Code.

Capital expenditure

2.1. Table 2.1 sets out actual and estimated capital expenditure and its funding for 2013/14 to 2019/20. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

Table 2.1: Actual and estimated capital expenditure 2013/14 - 2019/20

	2013/14 Actual £m	**2014/15 Projected £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
			← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
Capital expenditure	224	198	185	181	125	113	90
Financed by:							
Government grants	103	92	86	88	74	72	52
Capital receipts	0	0	0	0	0	0	0
Revenue, reserves and third party contributions	9	5	8	9	13	13	14
Net financing need for the year*	**112**	**101**	**98**	**84**	**38**	**28**	**24**

*Capital expenditure to be met by borrowing

11

The Council's borrowing need (the capital financing requirement)

2.2. Table 2.2 sets out the Council's capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP).

2.3 The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.

Table 2.2: Capital financing requirement (CFR) 2013/14 to 2019/20

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Projected**	**← - - - - - - - - - - Estimated - - - - - - - - - - →**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Opening CFR	560	682	767	838	899	913	916
Add new borrowing:							
MRP and other financing movements*	10	-16	-20	-23	-24	-25	-24
Net Financing Need**	112	101	91	84	38	28	24
Closing CFR	682	767	838	899	913	916	916
Total CFR movement	122	85	71	61	14	3	0

*Other financing movements include the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

B.2.4. Table 2.3 sets out the Council's gross debt compared to the CFR. Gross borrowing refers to an authority's total external borrowing. The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates for the following two financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes.

Table 2.3: Gross borrowing requirement 2013/14 to 2019/20

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Projected**	**← - - - - - - - - - - Estimated - - - - - - - - - - →**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross borrowing	424	486	557	618	631	634	633
CFR	682	767	838	899	913	916	916

11

The Council's operational boundary

2.5. Table 2.4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

The operational boundary has been set to ensure there is sufficient headroom to borrow up to the Authority's CFR if the cost of carry or interest rate environment are expected to change during the next 12 months to the extent that makes this an appropriate action.

Table 2.4: Operational boundary 2013/14 to 2019/20

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Projected**	**← - - - - - - - - - - Estimated - - - - - - - - - - →**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	467	527	601	653	643	633	622
Other long term liabilities	82	92	88	84	79	75	71
Total	**549**	**619**	**689**	**737**	**722**	**708**	**693**
Actual external debt	424	486	557	618	631	634	633

The Council's authorised limit

2.6. Table 2.5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and 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. The limit needs to be set or revised by the full Council. 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 since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

Table 2.5: Authorised limit for external debt 2013/14 to 2019/20

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Projected**	**← - - - - - - - - - - Estimated - - - - - - - - - - →**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	527	596	674	730	721	712	701
Other long term liabilities	82	92	88	84	79	75	71
Total	**609**	**688**	**762**	**814**	**800**	**787**	**772**
Actual external debt	424	486	557	618	631	634	633

11

Ratio of financing costs to net revenue stream

2.7. Table 2.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme.

Table 2.6: Ratio of financing costs to net revenue stream

	2014/15 Projected	2015/16	2016/17	2017/18	2018/19	2019/20
		← - - - - - - - - - - Estimated - - - - - - - - - - →				
Ratio of financing costs to net revenue stream	4.45%	4.92%	5.54%	5.13%	4.96%	4.96%

Incremental impact of capital investment decisions on Council Tax 2015/16 to 2019/20

2.8. Table 2.7 sets out the incremental impact of capital investment decisions on Council Tax. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for all future years.

Table 2.7: Estimated incremental impact of capital investment decisions on council tax 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
Band D Council Tax	£15.16	£24.08	£30.11	£30.68	£30.58

These prudential indicators show the full revenue costs of the proposed capital programme and do not reflect the impact of the current internal borrowing strategy which has the effect of reducing the actual finance costs as the external borrowing entered into is reduced.[1]

The revenue implications of potential, yet to be identified, investment opportunities that meet the Council's long term capital strategy criteria, will be funded from the investment returns of such investments. If there is a delay in the realisation of sufficient returns then costs will be funded from the Council's Revolving Infrastructure & Investment Fund.

[1] The revenue budgets for interest paid, received and the minimum revenue provision do reflect the internal borrowing and reduced cash balances strategies.