Prudential indicators

The Council has adopted the Prudential Code.

Capital expenditure

9.1. Table 9.1 sets out actual and estimated capital expenditure and its funding for 2014/15 to 2020/21. 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 9.1: Actual and estimated capital expenditure 2014/15 - 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← - - - - - - - - - - £m	2017/18 £m	2018/19 Estimated £m	2019/20 £m	2020/21 - - - - - - - - - - → £m
Capital expenditure	196.3	176.0	174.2	167.9	125.2	92.9	72.4
Financed by:							
Government grants	86.6	91.0	114.0	85.1	70.1	68.2	50.2
Revenue, reserves and third party contributions	8.4	15.8	14.5	17.8	9.5	10.6	10.2
Net financing need for the year*	**101.3**	**69.2**	**45.7**	**65.0**	**45.6**	**14.1**	**12.0**

*Capital expenditure to be met by borrowing

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

9.2. Table 9.2 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).

9.3. 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 9.2: Capital financing requirement (CFR) 2014/15 to 2020/21

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Projected	← - - - - - - - - - -	Estimated	- - - - - - - - - - →		
	£m	£m	£m	£m	£m	£m	£m
Opening CFR	681.7	781.6	870.9	916.4	950.3	943.9	903.2
Add new borrowing:							
MRP	-26.7	-24.9	-26.5	-29.4	-32.7	-35.4	-37.9
PFI* and Finance Leases	25.3	45	26.3	-1.7	-19.3	-19.4	-19.5
Net Financing Need	101.3	69.2	45.7	65	45.6	14.1	12.0
Closing CFR	781.6	870.9	916.4	950.3	943.9	903.2	857.8
Total CFR Movement	**99.9**	**89.3**	**45.5**	**33.9**	**-6.4**	**-40.7**	-45.4

*includes the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

9.4. Table 9.3 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 9.3: Gross borrowing requirement 2014/15 to 2020/21

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Projected	← - - - - - - - - - -	Estimated	- - - - - - - - - - →		
	£m	£m	£m	£m	£m	£m	£m
External Debt	428.7	429.3	448.5	484.2	497.0	511.2	523.2
CFR	781.6	870.9	916.4	950.3	943.9	903.2	857.8

The Council's operational boundary

9.5. Table 9.4 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 Director of Finance'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.

Table 9.4: Operational boundary 2014/15 to 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← £m	2017/18 £m	2018/19 Estimated £m	2019/20 £m	2020/21 → £m
Borrowing	428.7	448.4	490.2	503.3	510.3	521.7	523.2
Other long term liabilities	92.0	160.5	186.7	185.0	165.7	146.3	126.9
Total	**520.7**	**608.9**	**676.9**	**688.3**	**676.0**	**668.0**	**650.1**
External debt	428.7	429.3	448.5	484.2	497.0	511.2	523.2

The Council's authorised limit

9.6. Table 9.5 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 and ensures that the Council has the ability to borrow up to its CFR if the market changes to the extent that this is considered an appropriate action.

Table 9.5: Authorised limit for external debt 2014/15 to 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← £m	2017/18 £m	2018/19 Estimated £m	2019/20 £m	2020/21 → £m
Borrowing	598.1	722.4	741.4	777.0	789.9	768.6	742.7
Other long term liabilities	92.0	160.5	186.7	185.0	165.7	146.3	126.9
Total	**690.1**	**882.9**	**928.1**	**962.0**	**955.6**	**914.9**	**869.6**
External debt	428.7	429.3	448.5	484.2	497.0	511.2	523.2

Ratio of financing costs to net revenue stream

9.7. Table 9.6 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 9.6: Ratio of financing costs to net revenue stream

	2015/16 Projected	2016/17 ←	2017/18	2018/19 Estimated	2019/20	2020/21 →
Ratio of financing costs to net revenue stream	2.52%	2.85%	3.21%	3.49%	3.64%	3.78%

Incremental impact of capital investment decisions on Council Tax 2016/17 to 2020/21

9.8. Table 9.7 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 9.7: Estimated incremental impact of capital investment decisions on council tax 2016/17 to 2020/21

	2016/17	2017/18	2018/19	2019/20	2020/21
Band D Council Tax	£1.64	£9.64	£18.60	£24.84	£28.09

9.9. 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]

9.10. 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.