Prudential indicators 2018-19

1. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice.

Estimates of capital expenditure

3. The Authority's planned capital expenditure and financing is summarised in table 1. 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.

Table 1: Actual and estimated capital expenditure

	2016/17 Actual £m	2017/18 Projected £m	2018/19 ← - - - £m	2019/20 Estimated £m	2020/21 - - - - → £m
Capital expenditure	126	146	139	105	71
Investment strategy spend	144	105	34	14	14
Financed by:					
Government grants	87	97	89	63	35
Revenue, reserves and third party contributions	16	18	20	11	7
Net financing need for the year*	**167**	**136**	**64**	**45**	**43**

* Capital expenditure to be met by borrowing

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

4. Table 2 sets out the Council's estimated 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).

5. The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage.

6. 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: Estimated capital financing requirement (CFR)

	2016/17 Actual £m	2017/18 Projected £m	2018/19 ← - - - £m	2019/20 Estimated £m	2020/21 - - - - → £m
Opening CFR	904	1,063	1,182	1,231	1,249
Add new borrowing:					
MRP	-24	-26	-27	-27	-28
PFI* and finance leases	17	36	12	0	-1
Application of capital receipts		-27			
Net financing need	167	136	64	45	43
Closing CFR	**1,063**	**1,182**	**1,231**	**1,249**	**1,263**

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

7. The CFR is forecast to rise over the next 3 years, as capital expenditure plan financed by borrowing outweighs the resources planned to be set aside for debt repayment (MRP).

Gross borrowing and the capital financing requirement

8. In order to ensure that over the medium term borrowing will only be for a capital purpose, the Council should ensure that its debt 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 2 financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes. This is a key indicator of prudence.

Table 3: Gross borrowing requirement

	2016/17 Actual £m	2017/18 Projected £m	2018/19 ← - - - - £m	2019/20 Estimated £m	2020/21 - - - → £m
Gross borrowing	512	602	646	613	625
CFR	1,063	1,182	1,231	1,249	1,263

9. Total debt is expected to remain below the CFR during the forecast period.

The Council's operational boundary for external debt

10. Table 4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. It is based on the Authority's estimate of the most likely (ie prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the CFR and cash flow requirements and is a key management to for in-year monitoring.

11. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. Other long-term liabilities comprise finance lease, PFIs and other liabilities that are not borrowing but form part of the Authority's debt position.

12. The operational boundary 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.

Table 4: Operational boundary

	2017/18	**2018/19**	**2019/20**	**2020/21**
	Revised	**← - - - - Estimated**		**- - - - →**
	£m	**£m**	**£m**	**£m**
Borrowing	702	896	863	875
Other long term liabilities	170	162	144	125
Total	**872**	**1,059**	**1,007**	**1,000**
External debt	602	646	613	625

The Council's authorised limit for external debt

13. Table 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 is the maximum amount of debt that the Authority can legally owe.

14. 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.

15. The Authorised limit provides headroom over and above the operational boundary for unusual cash movements and potential additional borrowing to meet the ambitions of the Council in respect of its investment strategy.

16. As with the operational boundary, the limit separately identifies borrowing from other long term liabilities such as finance leases and PFIs.

Table 5: Authorised limit for external debt

	2017/18 Limit £m	**2018/19 Limit £m**	**2019/20 Limit £m**	**2020/21 Limit £m**
Borrowing	1,092	1,481	1,499	1,484
Other long term liabilities	182	162	144	125
Total	**1,274**	**1,643**	**1,643**	**1,609**
External debt	602	646	613	625

Estimated ratio of financing costs to net revenue stream

17. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 6: Ratio of financing costs to net revenue stream

	2017/18 Revised	**2018/19**	**2019/20**	**2020/21**
		← - - - - Estimated - - - - - →		
Ratio of financing costs to net revenue stream	3.78%	2.53%	2.28%	2.23%

18. 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.

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