

1. THE PRUDENTIAL INDICATORS

The following indicators are based on the figures put forward within the Capital and Revenue Plans set out in this report.

1.1. Affordability

1.1.1. Estimates of ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non-HRA	5.15%	5.44%	5.87%
HRA (inclusive of settlement figure)	34.39%	32.89%	30.04%

The estimates of financing costs include current commitments and the proposals in this budget report.

The indicators show the proportion of income taken up by capital financing costs. Indicative Aggregate External Finance (AEF) for 2019/2020 is a 1% decrease on 2018/2019 and for 2020/21 a 2% estimated decrease on 2019/2020.

1.2. Prudence

1.2.1. The Capital Financing Requirement (CFR)

This prudential indicator is the Council's Capital Financing Requirement (CFR). 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 borrowing need. The capital expenditure above, which has not immediately been paid for, will increase the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non-HRA	271	277	272
HRA	142	142	143
HRAS	74	73	71
TOTAL	487	492	486

1.2.2. The Gross Borrowing and Capital Financing Requirement indicator

The control mechanism to limit external debt.

Estimated gross borrowing for the four years starting with the last full year (2016/17) must not exceed the CFR in the medium term, but can in the short term due to cash flows.

Ensures borrowing is only for approved capital purposes.

The Director of Corporate Services reports that the authority complied with this requirement in 2016/17 and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

Details of Gross Borrowing:

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt at 1 st April	376	388	413	431	456
Expected Change in Debt	12	25	18	25	7
Gross debt at 31st March	388	413	431	456	463
CFR	471	491	487	492	486
Under / (Over) borrowing	83	78	56	36	23

1.2.3. External Debt

The Authorised Limit and the Operational Boundary:

The Authorised Limit prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. 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. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	535.5	540.5	534.5
Other Long-Term Liabilities	0.5	0.5	0.5
Total	536.0	541.0	535.0

The Operational Boundary for external debt is based on the same estimates as the authorised limit, but without the additional headroom for unusual and unexpected cash movements, and equates to the level of projected external debt. This is clearly subject to the timing of borrowing decisions.

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	486.9	491.9	485.9
Other Long-Term Liabilities	0.1	0.1	0.1
Total	487.0	492.0	486.0

The Council is asked to approve both the Authorised Limit and the Operational Boundary shown above.

1.2.4. Actual External Debt

The Council's actual external debt at 31st March 2017 was £388m. The actual external debt is not directly comparable to the authorised limit and operational boundary because the actual external debt reflects the position at a point in time.

It is recommended that the above Prudential Indicators are adopted and that the Director of Corporate Services is given delegated authority by Council to change the balance between borrowing and other long-term liabilities.

Other long-term liabilities are other credit arrangements, which are, in the main, finance leases.