

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.

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	5.11%	5.92%	6.33%
HRA (inclusive of settlement figure)	32.75%	33.60%	34.24%

The estimates of financing costs include current commitments and the proposals in this budget report. These figures are however subject to change as and when the final funding approvals come through from the Welsh Government. Updates will be provided if these figures require amendment.

The indicators show the proportion of income taken up by capital financing costs. Indicative Aggregate External Finance (AEF) for 2020/2021 is a 1% decrease on 2019/2020 and for 2021/22 a 1% estimated decrease on 2020/2021.

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	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	296	312	311
HRA	166	187	205
HRAS*	73	71	70
TOTAL	535	570	586

*Housing Revenue Account Subsidy Buyout of £79m in April 2015.

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 (2017/18) 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 2017/18 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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt at 1 st April	388	400	416	486	549
Expected Change in Debt	12	16	70	63	37
Gross debt at 31st March	400	416	486	549	586
CFR	484	487	535	570	586
Under / (Over) borrowing	84	71	49	21	0

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	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	587.5	626.5	643.5
Other Long-Term Liabilities	0.5	0.5	0.5
Total	588.0	627.0	644.0

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	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	534.9	569.9	585.9
Other Long-Term Liabilities	0.1	0.1	0.1
Total	535.0	570.0	586.0

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 2018 was £400m. 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.