

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.

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Non-HRA	4.74%	4.81%	5.39%
HRA (inclusive of settlement figure)	33.93%	34.21%	34.58%

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 2021/2022 is a 2% increase on 2020/2021 and for 2022/23 a 2% estimated increase on 2021/2022.

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	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Non-HRA	282	299	305
HRA	176	190	193
HRAS*	71	70	69
TOTAL	529	559	567

*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 (2018/19) 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 2018/19 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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt at 1 st April	400	413	433	470	530
Expected Change in Debt	13	20	37	60	37
Gross debt at 31st March	413	433	470	530	567
CFR	484	516	529	559	567
Under / (Over) borrowing	71	83	59	29	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	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	568.5	641.5	683.5
Other Long-Term Liabilities	0.5	0.5	0.5
Total	569.0	642.0	684.0

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	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	516.9	582.9	620.9
Other Long-Term Liabilities	0.1	0.1	0.1
Total	517.0	583.0	621.0

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 2019 was £413m. 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. These indicators may be affected once information is collated for the new lease requirements under IFRS 16 from 2020/21.