

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.

| | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---------------------|---------------------|---------------------|
| Non-HRA | 5.96% | 6.45% | 6.79% |
| HRA (inclusive of settlement figure) | 37.58% | 35.65% | 33.87% |

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 2017/2018 is a 2% decrease on 2016/2017 and for 2018/19 a 2% estimated decrease on 2017/2018.

1.1.2. Estimates of the incremental impact of capital investment decisions on the Council Tax

A fundamental measure of affordability.

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

All capital projects that would have had revenue implications have been removed from the capital programme. This will reduce the call on council tax payers since less revenue is needed to fund new projects.

| Incremental Impact on Council Tax | | | |
|-----------------------------------|---------|---------|---------|
| £ | 2016/17 | 2017/18 | 2018/19 |
| Increase in Band D Council Tax | 2.15 | 2.20 | 0.56 |

These figures show the likely effect on Council Tax of the proposals; they are **not** Council Tax estimates.

1.1.3. Estimates of the incremental impact of capital investment decisions on housing rent levels

A fundamental measure of affordability.

Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

The proposed changes are shown as the total revenue impact on Housing Rents. Items in the capital programme where there is already a commitment to carry out that scheme are excluded from this Indicator.

| Incremental Impact on Weekly Housing Rent | | | |
|---|---------|---------|---------|
| | 2016/17 | 2017/18 | 2018/19 |
| Increase in Housing Rent | 0.00 | 0.00 | 0.00 |

The final affect on the housing rent will be constrained by the Welsh Government Social Housing Rents Policy.

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 | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|--------------|------------------|------------------|------------------|
| Non-HRA | 260 | 263 | 259 |
| HRA | 131 | 131 | 144 |
| HRAS | 77 | 76 | 74 |
| TOTAL | 468 | 470 | 477 |

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 (2014/15) 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 2014/15 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 | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| Debt at 1 st April | 259 | 280 | 379 | 404 | 424 |
| Expected Change in Debt | 21 | 20 | 25 | 20 | 23 |
| HRAS | - | 79 | - | - | - |
| Gross debt at 31st March | 280 | 379 | 404 | 424 | 447 |
| CFR | 374 | 468 | 468 | 470 | 477 |
| Under / (Over) borrowing | 94 | 89 | 64 | 46 | 30 |

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 | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---------------------------------|---------------------|---------------------|---------------------|
| Borrowing | 514.5 | 516.5 | 523.5 |
| Other Long- Term Liabilities | 0.5 | 0.5 | 0.5 |
| Total | 515.0 | 517.0 | 524.0 |

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 | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|-----------------------------|---------------------|---------------------|---------------------|
| Borrowing | 467.9 | 469.9 | 476.9 |
| Other Long-Term Liabilities | 0.1 | 0.1 | 0.1 |
| Total | 468.0 | 470.0 | 477.0 |

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 2015 was £280m. 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.

MINIMUM REVENUE PROVISION (MRP) STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

Welsh Government regulations were issued with effect from 1st April 2010 which require the full Council to approve a Minimum Revenue Provision (MRP) Statement in advance each year. A variety of options were provided to councils to replace the existing Regulations, as long as there is a prudent provision.

Council have already approved the following approaches for calculating MRP:

Supported Borrowing and Capital Expenditure incurred before 1st April 2008

Based on CFR

The calculation is based on 4% of the opening Capital Financing Requirement (CFR) each year.

Unsupported Borrowing

Asset Life Method

Under this method the borrowing value is divided by the estimated life of the asset.

Capital Expenditure on the Modernising Education Programme (MEP) and Local Government Borrowing Initiative (LGBI) 21st Century Schools is classed as Unsupported Borrowing. It is estimated that asset lives within these programmes are 30 years and this is the period that will be used to determine the MRP.

Asset lives within the Fleet Programme range from 1 to 10 years, these are the periods that will be used to determine the MRP.

Local Government Borrowing Initiative (LGBI) Highways. It is estimated that asset lives within this programme are 20 years and this is the period that will be used to determine the MRP.

Housing Revenue Account

The calculation is based on 2% of the opening Capital Financing Requirement (CFR) each year.

Council is recommended to approve the following MRP Statement for 2016/2017:

For Supported and Unsupported Capital Expenditure, the MRP policy will continue to follow the approaches above.