Appendix 12

Prudential Indicators

1. Introduction

1.1 The Prudential Capital Finance system came into effect on 1st April 2004.

1.2 The Prudential Capital Finance system replaced the previous system of approval allocations from central government and allows authorities to borrow as much as they can prudently afford to pay back from their revenue resources. CIPFA developed the Prudential Code for Capital Finance in Local Authorities (Prudential Code) to provide a mechanism to enable councils to ensure, that in line with the new freedom given, their capital investment plans are affordable, prudent and sustainable.

1.3 It is the Council's responsibility to set its prudential indicators having had regard to its own individual set of circumstances. The Council will then be able to demonstrate that its capital investment proposals are affordable, prudent and sustainable.

1.4 The Prudential Indicators are divided into groups covering Affordability, Prudence, Capital Expenditure, External Debt and Treasury Management. This appendix explains what the Prudential Indicators are as well as revising them for 2018/19 where appropriate and setting them for future years.

2.0 Affordability - Ratio of financing costs to net revenue stream

2.1 This ratio sets an upper limit on the proportion of the Council's net revenue streams both for GF and HRA which goes to service debt.

2.2 The table below shows the ratios proposed for the General Fund, Housing Revenue Account and Overall as required by the Prudential Code.

Year	General Fund	Housing Revenue Account	Overall
2018/19 Revised	-2.00% to 3.00%	38.00% to 43.00%	20.00% to 25.00%
2019/20	-2.00% to 3.00%	38.00% to 43.00%	23.00% to 28.00%
2020/21	-2.00% to 3.00%	37.00% to 42.00%	24.00% to 29.00%
2021/22	-3.00% to 2.00%	36.00% to 41.00%	21.00% to 26.00%

2.3 It is felt best to have a ratio which is a range rather than a precise figure as at this point in time it is difficult to predict what long term interest rates will be in the future and even a small variation in the interest rate at which borrowing is incurred could cause a ratio based on a precise percentage to be breached but with little effect on the Authority's finances.

2.4 The significant size of the HRA ratio is due to the impact of taking on the HRA self financing debt and reflects the need to provide for repayment of the debt throughout the life of the Business Plan. This debt repayment provision was not required under the previous subsidy system but is fully covered within the Business Plan as the Council will retain all its rent income in order to provide for debt servicing costs.

2.5 There will be a need to monitor these ratios during the year and, if necessary, to take remedial action to avoid them being breached. It is recommended that the trigger point be set at the lowest point of each range. This will give sufficient time to remedy the situation.

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3.0 Prudence - Gross Debt and the Capital Financing Requirement

3.1 This indicator requires that gross debt, except in the short term, is to be kept below the CFR for the same period. It is estimated that gross external debt will be lower than the capital financing requirement in future years.

4.0 Capital Expenditure - Estimates of Capital Expenditure for at least 3 years

4.1 The Council is required to publish its estimated capital expenditure for both the general fund and housing revenue account for the next year and two years following. By modelling various capital programmes, this indicator provides the data for the ratio of financing costs to net revenue stream indicator.

4.2 The table below shows the Councils estimated capital expenditure on the General Fund and Housing Revenue Account for the next four years:

Capital expenditure	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
General Fund	4,200.0	448.9	576.8	551.8
Housing Revenue Account	22,156.3	4,633.1	4,636	4,638.9
Total	26,356.3	5,082.0	5,212.8	5,190.7

5.0 Capital Expenditure - Estimates of Capital Financing Requirement

5.1 This is a key measure in that it measures the underlying need for an authority to borrow for capital purposes. Either external or internal borrowing (where an authority utilises cash backing its reserves and balances rather than externally borrowing) creates a cost to the Council in terms of having to pay interest on and provide for repayment of external loans or lost investment interest. The Capital Financing Requirement provides the starting point for calculating this cost and the results feed into the ratio of financing costs to net revenue stream indicator.

5.2 The estimated Capital Financing Requirements (CFR) at the end of 2018/19 and each of the next three years are as follows and are based on the Council's capital programme and also include both the HRA Self

Financing debt settlement and the effects of the debt repayment strategy contained within the HRA Self Financing Business Plan. The GF CFR also includes the impact of the internal borrowing incurred to date as well as the internal and external borrowing factored into the current 5 year General Fund Capital Programme.

Year	**General Fund** **£000**	**HRA** **£000**	**Total** **£000**
2018/19 Revised	20,715	135,787	156,502
2019/20	20,406	135,787	156,193
2020/21	18,665	135,787	154,452
2021/22	17,725	135,787	153,512

5.3 With regard to the HRA the Capital Financing Requirement reflects the HRA Self Financing debt settlement of £136.157m. The CFR is slightly below the borrowing figure due to the £0.370m negative capital financing requirement at the commencement of 2011/12.

5.4 Because of variations in the capital programmes there will be a need to monitor this indicator in year to ensure that the in year limit is not breached by slippage from the previous year or expenditure brought forward from the following year. This is unlikely but will be kept under review by Finance.

6.0 External Debt - Authorised Limit

6.1 The Council is required to set for the forthcoming year and the following two financial years an Authorised Limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. The Authorised Limit equates to the maximum external debt at any one time which the Council is allowed to have outstanding.

6.2 The recommended Authorised Limit is as shown in the table below:

Authorised Limit	**2018/19 Latest** **£000**	**2019/20 Estimate** **£000**	**2020/21 Estimate** **£000**	**2021/22 Estimate** **£000**
Debt including HRA Settlement	166,853	196,853	206,853	205,853
Other Long Term Liabilities	2,079	2,063	2,047	2,030
Total	**168,932**	**198,916**	**208,900**	**207,883**

6.3 The limits above take into account the HRA Self Financing debt settlement and Leisure Centre Refurbishment borrowing. They also include an allowance for any potential prudential borrowing on future capital projects both GF and HRA.

7.0 External Debt - Operational Boundary

7.1 The Council is also required to set an operational boundary for external debt. Again this is for three years and gross of investments. The Operational Boundary which is less than the Authorised Limit is effectively the day to day working limit for cash flow purposes. This indicator is sensitive to additional borrowing and to debt restructuring so will need to be set at an appropriate level at the outset of each financial year to cater for any forecast activity in these areas during the coming year. Occasional breach of the Operational Boundary is not seen as a cause for concern (so long as the Authorised Limit is not breached) but a sustained breach could mean that there are problems with the Councils cash flow therefore there will be a need to monitor this indicator during the year and, if necessary, to take remedial action.

7.2 The recommended Operational Boundaries are as shown in the table below:

Operational Boundary	**2018/19 Latest £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt including HRA Settlement	148,879	148,879	148,879	148,879
Other Long Term Liabilities	1,079	1,063	1,047	1,030
Total	**149,958**	**149,942**	**149,926**	**149,909**