

## Appendix 1

### PRUDENTIAL INDICATORS

#### Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

<b>Capital expenditure £m</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Non-HRA	51.165	71.120	72.651	62.745	12.662
HRA	33.056	67.459	63.680	80.464	53.359
Regeneration Programme *	4.472	6.279	146.735	102.243	72.709
<b>Total</b>	<b>88.693</b>	<b>144.858</b>	<b>283.066</b>	<b>245.452</b>	<b>138.730</b>

\* these activities relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Financing of capital expenditure £m</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Capital receipts	22.457	15.331	63.690	50.947	30.000
Capital grants	20.823	39.621	31.550	31.725	2.000
Revenue and Reserves	27.945	68.267	25.689	38.340	23.335
Section 106/CIL	1.921	2.795	1.339	0	0
<b>Net financing need for the year</b>	<b>15.547</b>	<b>18.844</b>	<b>160.798</b>	<b>124.440</b>	<b>83.395</b>

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

<b>Regeneration Programme £m</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Capital Expenditure	4.472	6.279	146.735	102.243	72.709
Other Sources of Financing	0	0	50.250	48.000	30.000
<b>Net financing need for the year</b>	<b>4.472</b>	<b>6.279</b>	<b>96.485</b>	<b>54.243</b>	<b>26.709</b>
Percentage of total net financing need %	<b>28.76</b>	<b>33.32</b>	<b>60.00</b>	<b>43.59</b>	<b>32.03</b>

### **The Council's borrowing need (the Capital Financing Requirement)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic 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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities. The Council currently has no such liabilities within the CFR.

The Council is asked to approve the CFR projections below:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
<b>Capital Financing Requirement</b>					
CFR – non housing	69.154	80.281	104.693	130.435	138.063
CFR – housing	174.669	174.669	212.660	254.784	284.808
CFR – Regeneration Programme	20.647	26.489	122.537	173.897	212.414
<b>Total CFR</b>	<b>264.470</b>	<b>281.439</b>	<b>439.890</b>	<b>559.116</b>	<b>635.285</b>
<b>Movement in CFR</b>	<b>13.892</b>	<b>16.969</b>	<b>158.451</b>	<b>119.226</b>	<b>76.169</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year	15.548	18.844	160.798	124.440	83.394
Less MRP and other financing movements	1.656	1.875	2.347	5.214	7.225
<b>Movement in CFR</b>	<b>13.892</b>	<b>16.969</b>	<b>158.451</b>	<b>119.226</b>	<b>76.169</b>

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Operating Officers reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

## Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

## Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator:

### 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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	2.2	2.4	2.8	3.3	4.0
HRA	4.1	3.2	4.0	4.8	5.3
Regeneration Programme		0.8	2.0	4.9	6.6
<b>Total</b>	6.3	6.4	8.8	13.0	15.9

Prior to 2018/19 regeneration programme activities are not shown separately in this table

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