

CAPITAL STRATEGY PRUDENTIAL INDICATORS

Background

1. The Prudential Code requires the Council to have in place a Capital Strategy that sets out the long term context in which capital expenditure decisions are made. In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. The following indicators, which were previously included with the Treasury Management Strategy, now form part of the Capital Strategy report but have been included as background, as they provide the framework around which the Treasury Indicators have been set.

Gross Debt and the Capital Financing Requirement

2. This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local Council should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This view takes into account current commitments, existing plans and the proposals in the approved budget.
3. There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.
4. The estimated capital financing requirement and gross debt is shown in the tables below:

Table 1 – Current and Estimated Movement in Capital Financing Requirement

| Capital Financing Requirement | 31/03/2018 £M | 31/03/2019 £M | 31/03/2020 £M | 31/03/2021 £M | 31/03/2022 £M | 31/03/2023 £M |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance Brought forward | 322.62 | 322.03 | 338.93 | 345.79 | 347.27 | 348.58 |
| New Borrowing | 4.41 | 24.47 | 16.50 | 11.63 | 11.96 | 18.59 |
| MRP | (7.13) | (5.65) | (6.26) | (6.61) | (6.71) | (7.01) |
| Appropriations (to) from HRA | 0.56 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Movement in Other Liabilities | (3.78) | (2.47) | (3.38) | (3.54) | (3.94) | (3.93) |
| MRP Holiday | 5.35 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total General Fund Debt | 322.03 | 338.93 | 345.79 | 347.27 | 348.58 | 356.23 |
| HRA | 157.92 | 171.67 | 182.00 | 190.54 | 192.84 | 199.75 |
| Total CFR | 479.95 | 510.60 | 527.79 | 537.81 | 541.42 | 555.98 |
| Estimated Debt (<i>see below for breakdown</i>) | 324.56 | 343.44 | 370.62 | 380.67 | 384.28 | 399.21 |
| Under / (Over) Borrowed | 155.39 | 167.16 | 157.17 | 157.14 | 157.14 | 156.77 |

Table 2 – Current and Estimated Movement in Gross Debt

| Gross Debt | 31/03/2018 Actual £M | 31/03/2019 Estimate £M | 31/03/2020 Estimate £M | 31/03/2021 Estimate £M | 31/03/2022 Estimate £M | 31/03/2023 Estimate £M |
|--|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Borrowing (Long Term GF) | 74.90 | 68.93 | 50.33 | 115.63 | 120.89 | 132.49 |
| Borrowing (Long Term HRA) | 142.91 | 137.41 | 119.54 | 190.67 | 192.96 | 199.86 |
| Borrowing (Short Term) | 33.35 | 66.17 | 133.20 | 10.35 | 10.35 | 10.35 |
| Total Borrowing (see Table 18) | 251.16 | 272.51 | 303.07 | 316.65 | 324.20 | 342.70 |
| Finance leases and Private Finance Initiatives | 58.84 | 56.74 | 53.73 | 50.55 | 46.98 | 43.41 |
| Transferred Debt | 14.55 | 14.19 | 13.83 | 13.46 | 13.10 | 13.10 |
| Total Other Debt | 73.39 | 70.93 | 67.55 | 64.02 | 60.08 | 56.50 |
| Total Debt | 324.56 | 343.44 | 370.62 | 380.67 | 384.28 | 399.21 |

Estimates of Capital Expenditure

5. The Council's planned capital expenditure and financing is summarised below, further detail is provided in the General Fund and HRA capital programme report.

6. **Table 3 – Capital Expenditure**

| Capital Expenditure & Refinancing | Budget 2018/19 £M | Forecast 2018/19 £M | Forecast 2019/20 £M | Forecast 2020/21 £M | Forecast 2021/22 £M | Forecast 2022/21 £M |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| General Fund | 81.33 | 71.41 | 50.32 | 31.78 | 11.96 | 18.63 |
| HRA | 58.76 | 53.16 | 54.63 | 39.21 | 35.60 | 38.99 |
| Total Expenditure | 140.09 | 124.57 | 104.95 | 70.99 | 47.56 | 57.62 |
| Capital Receipts | 19.08 | 18.43 | 10.03 | 2.86 | 3.16 | 2.42 |
| Capital Grants | 27.51 | 24.66 | 21.17 | 19.30 | 0.00 | 0.04 |
| Contributions | 9.67 | 10.66 | 5.79 | 0.99 | 0.00 | 0.44 |
| Major Repairs Allowance | 19.76 | 14.15 | 29.97 | 20.44 | 21.04 | 21.53 |
| Direct Revenue Financing | 12.70 | 12.95 | 11.16 | 7.23 | 7.79 | 8.13 |
| Total Financing | 88.38 | 80.85 | 78.12 | 50.82 | 31.99 | 21.12 |
| Council Resources Borrowing | 51.71 | 43.72 | 26.83 | 20.17 | 15.57 | 25.50 |
| Total Funding | 51.71 | 43.72 | 26.83 | 20.17 | 15.57 | 25.50 |
| Total Financing & Funding | 140.09 | 124.57 | 104.95 | 70.99 | 47.56 | 57.62 |

Ratio of Financing Costs to Net Revenue Stream

7. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 10% and will remain so for the General Fund to allow for known borrowing decisions in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme.

8. This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP, which is the main contributor for

the increase in 2018/19. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years, which it has opted to do for 2019/20 & 2020/21.

Table 4 – Ratio of Financing Costs to Net Revenue Stream

9.

| Ratio of Financing Costs to Net Revenue Stream | 2018/19 Forecast % | 2019/20 Forecast % | 2020/21 Forecast % | 2021/22 Forecast % | 2022/23 Forecast % |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| General Fund | 6.28 | 8.56 | 10.07 | 10.08 | 10.35 |
| HRA | 14.78 | 6.25 | 6.82 | 9.96 | 8.27 |
| Total | 10.52 | 9.74 | 10.21 | 11.27 | 10.89 |

Authorised Limit and Operational Boundary for External Debt

10.

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

11.

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements, for example a complete debt restructure which requires monies to be borrowed in advance of repayment of existing debt. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Table 5 – Authorised Limit for External Debt

12.

| Authorised Limit for External Debt | Actual 31 December 2018 | 2018/19 Approved | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate | 2022/23 Estimate |
|------------------------------------|-------------------------|------------------|------------------|------------------|------------------|------------------|
| | £M | £M | £M | £M | £M | £M |
| Borrowing | 235 | 785 | 850 | 700 | 700 | 880 |
| Other Long-term Liabilities | 77 | 75 | 75 | 70 | 70 | 65 |
| Total | 311 | 860 | 925 | 770 | 770 | 945 |

13. The **Operational Boundary** is linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit which allows for a full debt restructure if a favourable opportunity arose.

Table 6–Operational Boundary for External Debt

| 14. | Operational Boundary for External Debt | Actual 31 December 2018 | 2018/19 Approved | 2019/20 Estimate | 2020/21 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|-----|--|-------------------------|------------------|------------------|------------------|------------------|------------------|
| | | £M | £M | £M | £M | £M | £M |
| | Borrowing | 235 | 705 | 800 | 660 | 660 | 715 |
| | Other Long-term Liabilities | 77 | 75 | 75 | 70 | 70 | 65 |
| | Total | 311 | 780 | 875 | 730 | 730 | 780 |

15. The CFO has delegated authority, within the above limits for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Council will be notified of any use of this delegated authority.

Other Tables

16. **Table 7–Estimated Movement in Borrowing Requirement**

| Total Borrowing Requirement | 2018/19 Forecast | 2019/20 Forecast | 2020/21 Forecast | 2021/22 Forecast | 2022/23 Forecast |
|--|------------------|------------------|------------------|------------------|------------------|
| | £M | £M | £M | £M | £M |
| GF New Borrowing Requirement | 46.57 | 105.17 | 147.96 | 16.68 | 21.58 |
| HRA New Borrowing Requirement | 19.25 | 27.68 | 17.71 | 3.61 | 6.91 |
| Total New Borrowing Requirement | 65.82 | 132.85 | 165.67 | 20.29 | 28.49 |

| Movement on Estimated Long Term Borrowing Requirement - General Fund | 2018/19 Forecast | 2019/20 Forecast | 2020/21 Forecast | 2021/22 Forecast | 2022/23 Forecast |
|--|------------------|------------------|------------------|------------------|------------------|
| | £M | £M | £M | £M | £M |
| General Fund (GF) | | | | | |
| Capital Programme | 24.47 | 16.50 | 11.63 | 11.96 | 18.59 |
| Maturing Debt - long term | 5.97 | 19.12 | 10.10 | 1.44 | 0.00 |
| Maturing Debt - short term | 21.22 | 65.81 | 132.84 | 10.00 | 10.00 |
| Movement in Internal Borrowing | 0.00 | 10.00 | 0.00 | 0.00 | 0.00 |
| Less Repayment of Debt Principal | (5.65) | (6.26) | (6.61) | (6.72) | (7.01) |
| Plus MRP Holiday | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| GF New Borrowing Requirement | 46.57 | 105.17 | 147.96 | 16.68 | 21.58 |

| | Movement on Estimated Long Term Borrowing Requirement - HRA | 2018/19 Forecast £M | 2019/20 Forecast £M | 2020/21 Forecast £M | 2021/22 Forecast £M | 2022/23 Forecast £M |
|-----|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | HRA | | | | | |
| | Capital Programme | 19.25 | 10.33 | 8.54 | 3.61 | 6.91 |
| | Maturing Debt - long term | 5.50 | 17.35 | 9.17 | 1.31 | 0.00 |
| | Movement in Internal Borrowing | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Less Repayment of Debt Principal | (5.50) | 0.00 | 0.00 | (1.31) | 0.00 |
| | HRA New Borrowing Requirement | 19.25 | 27.68 | 17.71 | 3.61 | 6.91 |
| 17. | Table 8–Estimated Movement in Loans | | | | | |
| | Borrowing | 31/03/2019 Forecast £M | 31/03/2020 Forecast £M | 31/03/2021 Forecast £M | 31/03/2022 Forecast £M | 31/03/2023 Forecast £M |
| | Long Term | | | | | |
| | Balance brought forward | 217.81 | 206.34 | 169.87 | 306.30 | 313.85 |
| | Maturing debt | (11.47) | (36.47) | (19.27) | (2.75) | 0.00 |
| | New Loans raised in year | 0.00 | 0.00 | 155.70 | 10.30 | 18.50 |
| | Estimated Long Term Loans | 206.34 | 169.87 | 306.30 | 313.85 | 332.35 |
| | Short Term | | | | | |
| | Balance brought forward | 33.35 | 66.17 | 133.20 | 10.35 | 10.35 |
| | Maturing debt | (33.35) | (66.17) | (133.20) | (10.35) | (10.35) |
| | New Loans raised in year | 66.17 | 133.20 | 10.35 | 10.35 | 10.35 |
| | Estimated Short Term Loans | 66.17 | 133.20 | 10.35 | 10.35 | 10.35 |
| | Total Estimated Loans | 272.51 | 303.07 | 316.65 | 324.20 | 342.70 |