

PRUDENTIAL AND OTHER INDICATORS 2019-20

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's Prudential Code for Capital Finance in Local Authorities. Table 1 shows the 2018-19 actual capital expenditure, summarised over Council Fund services and Investment Properties, the capital programme approved by Council on 20 February 2019 and the latest projection for the current financial year which has incorporated slippage of schemes from 2018-19 together with any new grants and contributions or changes in the profile of funding.

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
Council Fund services	27.614	35.677	53.991
Investment Properties	-	0.480	0.480
TOTAL	27.614	36.157	54.471

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or net financing requirement (borrowing, leasing and Private Finance Initiative). The planned financing of the expenditure has been projected in Table 2 and is as follows:

Table 2: Capital financing

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
External sources	12.407	9.950	17.806
Own resources	9.045	14.978	26.999
Net Financing Requirement	6.162	11.229	9.666
TOTAL	27.614	36.157	54.471

The net financing requirement has fallen compared to the estimate on the Capital Strategy as a result of the reduction in anticipated level of Prudential Borrowing within 2019-20. This will reduce the revenue burden on the Council within this financial year as the net financing requirement is only a temporary source of finance, since loans and leases must be repaid. This is therefore replaced over time by other financing, usually from revenue which is known as the Minimum Revenue Provision (MRP). As well as MRP, the Council makes additional voluntary revenue contributions to pay off Prudential or Unsupported Borrowing. The total of these are shown in Table 3 below:-

Table 3: Replacement of debt finance

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
Minimum Revenue Provision (MRP)	2.858	2.885	2.885
Additional Voluntary Revenue Provision	1.459	1.995	1.989
Total MRP & VRP	4.317	4.880	4.874
Other MRP on Long term Liabilities	0.641	0.690	0.690
Total Own Resources	4.958	5.570	5.564

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces by the MRP amount within the year. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows based on the movement on capital expenditure at quarter 1:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
Capital Financing Requirement (CFR)			
Opening CFR adjusted excluding PFI & other liabilities	153.240	154.811	155.084
Opening PFI CFR	17.640	17.000	17.000
Opening Innovation Centre	-	-	-
Opening Coychurch Crematorium	-	-	-
Total Opening CFR	170.880	171.811	172.084
Movement in CFR excluding PFI & other liabilities	1.845	6.349	4.792
Movement in PFI CFR	(0.641)	(0.690)	(0.690)
Movement in Innovation Centre CFR	-	-	-
Movement in Coychurch Crematorium	-	-	-
Total Movement in CFR	1.204	5.659	4.102
Closing CFR	172.084	177.470	176.184
Movement in CFR represented by :-			
Net Financing Need for Year (Table 2 Above)	6.162	11.229	9.666
Minimum and Voluntary Revenue Provisions	(4.317)	(4.880)	(4.874)
MRP on PFI and Other Long Term Leases (Table 3 above)	(0.641)	(0.690)	(0.690)
Total Movement	1.204	5.659	4.102

The Capital Financing Requirement has fallen since the Capital Strategy was presented to Council in February. This is as a result of the finalisation of the year end position for 2018-19 where additional grants were received to replace loan financing, together with a fall in the Net Financing Requirement for 2019-20 as stated in Table 2 above.

The capital borrowing need (Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. Projected levels of the Council's total outstanding debt, which comprises borrowing, PFI and Other Long Term Liabilities, are shown in Table 5 below compared with the Capital Financing Requirement:-

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
Debt (incl. PFI & leases)	114.750	130.758	115.199
Capital Financing Requirement	172.084	177.470	176.184

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen, the Council expects to comply with this in the medium term.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Table 6 below shows these two limits and as the current projection for debt is £115.199 million above, it is below the Operational Boundary.

Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
Authorised limit – borrowing	140.000	170.000	
Authorised limit – other long term liabilities	30.000	30.000	
Authorised Limit Total	170.000	200.000	
Operational boundary – borrowing	105.000	115.000	
Operational boundary – other long term liabilities	25.000	20.000	
Operational Boundary Limit Total	130.000	135.000	
Total Borrowing and Long Term Liabilities	114.750	130.758	115.199

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018-19 Actual £m	2019-20 Estimate (Council Feb '19) £m	2019-20 Projection £m
Capital Financing Central	6.451	6.741	6.509
Other Financing costs	3.406	3.941	3.936
TOTAL FINANCING COSTS	9.857	10.682	10.445
Proportion of net revenue stream	3.71%	3.94%	3.86%

Table 7 above shows that in 2018-19, 3.71% of our net revenue income was spent paying back the costs of capital expenditure. This is less than in 2017-18, which was 4.72%, due to the change in the MRP policy during the financial year where the charge for Supported Borrowing is now on a straight-line basis over forty five years rather than on a 4% reducing balance basis. The projection for 2019-20 is that the proportion of net revenue income spent paying back the cost of capital has risen to 3.86% but this is lower than when the Capital Strategy was taken to Council due to the reduction in Prudential Borrowing for 2019-20.