

Prudential Indicators 2019/20

Background

1. Through the Local Government Act 2003, the Government relaxed its detailed control of local authority capital expenditure and replaced it with a requirement that Councils should have regard to CIPFA's **Prudential Code for Capital Finance in Local Authorities**. This Code of Practice is intended to ensure that local authorities' capital expenditure plans are **affordable, prudent and sustainable**.
2. The Code of Practice also requires that the Council's treasury management decisions are taken in accordance with professional good practice. More details of this will feature in the Treasury Management Strategy for 2019/20 which will be presented to the Policy and Resources Committee and Council for approval in March 2019. The format of the Prudential Indicators below is as outlined in the national code of practice which was updated and published in December 2017.

Indicators of Affordability

3. Prudential indicators of affordability are based on the mix of capital and revenue expenditure in the Council's budget and the effect that the spending plans will have on the Council Tax.

The Ratio of Financing Costs to the Council's Net Revenue Stream

4. The first indicator is the ratio of financing costs to the Council's "net revenue stream". The net revenue stream is the amount that the Council receives in council tax and formula grant from the government. The indicators for 2018/19 to 2021/22 are shown in **Table 1** below:-

Table 1: Ratio of Financing Costs to Net Revenue Stream

	Estimate 2018/19 %	Estimate 2019/20 %	Estimate 2020/21 %	Estimate 2021/22 %
2019/20 Indicators	11.19%	11.79%	13.31%	14.19%
2018/19 Indicators	11.47%	13.94%	13.65%	n/a
2017/18 Indicators	12.54%	14.66%	n/a	n/a

5. Councillors will note that the indicator is increasing year on year reflecting rising borrowing costs as a result of the annual increase in the Council's underlying indebtedness combined with a reducing net revenue stream as the budget is reduced to align with lower levels of funding from government grants and business rates, with our remaining Revenue Support Grant now rolled into the Business Rates Retention regime.

- To the extent that this additional cost is factored in the General Fund Revenue Budget and is therefore considered affordable, it does not present a problem in the short term although the pressures on the Revenue budget may result in this position being unsustainable over the longer term.

Indicators of Prudence

Capital Financing Requirement

- The Capital Financing Requirement is intended to reflect the Council's underlying need to borrow. It is a notional estimate of the need to borrow and should not be confused with actual cash borrowing.
- It is a requirement that over the medium term net borrowing will only be for a capital purpose. In order to ensure this remains the case, the Council should ensure that gross debt does not exceed the total capital financing requirement for the previous year plus the estimate of any additional Capital Financing Requirement for the current and next two financial years. The Capital Financing Requirement for the years 2018/19 to 2021/22 is estimated as follows:-

Table 2: Capital Financing Requirement (CFR)

	In Year Amount (net) £m	Balance at 31st March Total £m	Gross External Debt £m
CFR Balance at 31 st March 2018		20.965	19.359
2018/19	2.317	23.282	20.359
2019/20	3.617	26.899	25.359
2021/22	(0.725)	26.174	26.359
2022/23	(0.727)	25,437	26.359

- As the table indicates, gross external debt on the basis of current estimates is not expected to exceed the sum of the capital financing requirement (CFR) for the current year plus the incremental change in the projected CFR for the following two years.

The Total Estimated Capital Spend for the Next Three Years

- The Code requires that the Council estimates the total capital spend for the next three years. These figures are shown below and are as provided at [Appendix C](#) in this report.

Table 3: Capital Expenditure

	Estimate 2019/20 £m	Estimate 2020/21 £m	Estimate 2021/22 £m
General Fund (excluding slippage 2019/20)	2.733	1.884	1.534
General Fund (excluding slippage 2018/19)	1.920	1.330	n/a
General Fund (excluding slippage) 2017/18	1.080	n/a	n/a

11. It should be noted that these figures may include capital expenditure to be incurred by the Council but funded through external sources.