

## Appendix C – Prudential Indicators

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

### Estimates of Capital Expenditure

The Council's planned capital expenditure and financing can be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2016/17 Estimate £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>	<b>2019/20 Estimate £M</b>
General Fund	92.8	94.9	91.0	96.8
HRA	12.8	14.6	22.3	21.9
<b>Total Expenditure</b>	<b>105.6</b>	<b>109.5</b>	<b>113.3</b>	<b>118.7</b>
Capital Receipts	(10.5)	(12.0)	(10.0)	(10.0)
Grants and Contributions	(39.8)	(43.0)	(46.4)	(63.5)
Revenue	-	-	-	-
Borrowing	(42.5)	(39.9)	(34.6)	(23.3)
<b>General Fund sub-total</b>	<b>(92.8)</b>	<b>(94.9)</b>	<b>(91.0)</b>	<b>(96.8)</b>
Capital Receipts	(4.0)	(4.0)	(4.7)	(10.2)
Reserves	(3.7)	(6.2)	(14.5)	(11.4)
Revenue	(5.1)	(2.3)	(2.1)	-
Grants and Contributions	-	(2.1)	(1.0)	(0.3)
<b>HRA sub-total</b>	<b>(12.8)</b>	<b>(14.6)</b>	<b>(22.3)</b>	<b>(21.9)</b>
<b>Total Financing</b>	<b>(105.6)</b>	<b>(109.5)</b>	<b>(113.3)</b>	<b>(118.7)</b>

## Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

<b>Capital Financing Requirement</b>	<b>31/03/17 Estimate £M</b>	<b>31/03/18 Estimate £M</b>	<b>31/03/19 Estimate £M</b>	<b>31/03/20 Estimate £M</b>
General Fund	347.4	377.8	402.0	414.6
HRA	165.0	163.5	162.0	159.1
<b>Total CFR</b>	<b>512.4</b>	<b>541.3</b>	<b>564.0</b>	<b>573.7</b>

The CFR is forecast to rise by £61.3M over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

## Gross Debt and the Capital Financing Requirement

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 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 CFR for the current and next two financial years.

<b>Debt</b>	<b>31/03/17 Estimate £M</b>	<b>31/03/18 Estimate £M</b>	<b>31/03/19 Estimate £M</b>	<b>31/03/20 Estimate £M</b>
Borrowing	380.6	420.5	455.1	478.3
PFI liabilities	17.7	17.2	16.5	15.9
<b>Total Debt</b>	<b>398.3</b>	<b>437.7</b>	<b>471.6</b>	<b>494.2</b>

Total debt is expected to remain below the CFR during the forecast period.

## Operational Boundary for External Debt

The Operational Boundary is based on a prudent estimate for external debt. It links directly to the Council's estimates of capital expenditure, the CFR and cash flow requirements, and is a management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiative (PFI) and other liabilities that are not borrowing but form part of the Council's debt.

<b>Operational Boundary</b>	<b>2016/17 Estimate £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>	<b>2019/20 Estimate £M</b>
Borrowing	528.3	549.2	573.0	583.8
Other long-term liabilities	18.2	17.7	17.0	16.4
<b>Total Debt</b>	<b>546.5</b>	<b>566.9</b>	<b>590.0</b>	<b>600.2</b>

## Authorised Limit for External Debt

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe at any given point during each financial year. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements. More specifically, the Authorised Limit for External Debt is a total of £10.5M higher in each financial year from 2017/18 when compared to the Operational Boundary figure, being £10.0M higher on the 'Borrowing' line and £0.5M higher on the 'Other long-term liabilities' line.

<b>Authorised Limit</b>	<b>2016/17 Estimate £M</b>	<b>2017/18 Estimate £M</b>	<b>2018/19 Estimate £M</b>	<b>2019/20 Estimate £M</b>
Borrowing	538.3	559.2	583.0	593.8
Other long-term liabilities	18.7	18.2	17.5	16.9
<b>Total Debt</b>	<b>557.0</b>	<b>577.4</b>	<b>600.5</b>	<b>610.7</b>

## Ratio of Financing Costs to Net Revenue Stream

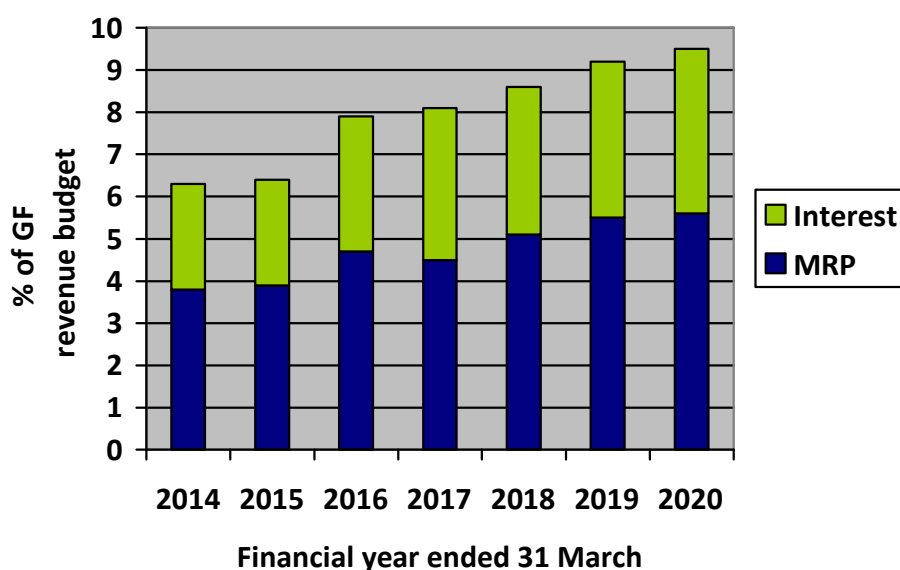
This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
General Fund	8.6	9.2	9.5
HRA	13.7	13.7	13.7

It measures the proportion of the net revenue budget that is required to meet the ongoing financing costs of past capital expenditure which was funded from borrowing. Future year estimates incorporate the additional financing costs of planned capital expenditure to be funded from borrowing. It is important that the total capital investment of the Council remains within sustainable limits. However, the level of capital investment that can be supported will be a matter for local decision.

Central Bedfordshire's ratio is expected to increase given the Council's significant commitment to capital investment over the next few years.

The growing impact of borrowing to fund new capital expenditure is shown below, with Minimum Revenue Provision (MRP) and interest costs taking up an increasingly greater proportion of the Council's net revenue budget over time:



\* 2015/16 includes a Voluntary Revenue Provision of £0.7M within the Minimum Revenue Provision figure

The figures in the above chart are based on the current Medium Term Financial Plan. The Council will need to carefully consider this increasing cost when determining its future plans for capital expenditure.

### **Incremental Impact of Capital Investment Decisions**

This is an indicator of affordability that shows the incremental impact of new capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved Capital Programme and the revenue budget requirement arising from the Capital Programme proposed.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>
General Fund - increase in annual band D Council Tax	11.87	20.03	25.67
HRA - increase in average weekly rents	0.12	0.32	0.52

### **Adoption of the CIPFA Treasury Management Code**

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2011 Edition)* at its Council meeting on 29<sup>th</sup> November 2012.

## Housing Revenue Account (HRA) Debt

The purpose of this limit is to report the level of debt imposed on the Council at the time of the implementation of self-financing by the Department for Communities and Local Government (CLG).

	<b>2016/17 Estimate £</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>
HRA Debt Cap (as prescribed by the DCLG)	165.0	165.0	165.0	165.0
HRA CFR	165.0	163.5	162.0	159.1
<b>Difference</b>	<b>0.0</b>	<b>1.5</b>	<b>3.0</b>	<b>5.9</b>