Appendix 1

Prudential and Treasury Indicators 2018/19

Capital Expenditure and Financing 2018/19

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need (though the timing of borrowing may be delayed through the application of cash balances held by the Council).

The actual capital expenditure forms one of the required prudential indicators and is shown in the table below.

	2017/18 Actual £m	2018/19 Revised Budget £m	2018/19 Actual £m
Total capital expenditure	121	95	66

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's net debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been financed by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively the reserving of funds for repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. The Council's 2018/19 MRP Policy (as required by MHCLG Guidance) was approved as part of Treasury Management Strategy Report for 2018/19 but the policy applied was the amended policy for 2019/20 approved prior to year-end on 7th February 2019.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's CFR for the year represents a key prudential indicator analysed below. This includes PFI schemes on the balance sheet, which increase the Council's long term liabilities. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

CFR (£m)	**31 March 2018 Actual**	**31 March 2019 Revised Indicator**	**31 March 2019 Actual**
CFR at Year End	280	288	280

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit presented later in this Appendix.

Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2018/19 plus the expected changes to the CFR over the subsequent two years. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR (£m)	**31 March 2018 Actual**	**31 March 2019 Actual**
Opening balance	174.3	279.5
Capital expenditure in year funded from borrowing	109.0	45.9
Minimum Revenue Provision	(3.8)	(4.7)
CFR at Year End	**279.5**	**320.7**

CFR (£m)	31 March 2018 Actual	31 March 2019 Actual
Net borrowing position	**226.6**	**263.0**

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. Borrowing levels were maintained well below the operational boundary throughout the year.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term liabilities net of investment income) against the net revenue stream.

	2018/19
Authorised limit	£520m
Maximum gross borrowing position	£302.8m
Operational boundary	£470m
Average gross borrowing position	£294.5m
Financing costs as a proportion of net revenue stream	12%
Financing costs as a proportion of net revenue stream including Investment Property income	*5%*

Treasury Indicators:

These indicators were not set for 2018/19 pending clarification on the revised Codes of Practice. They are produced here for information and will be published in future strategy documents.

Maturity Structure of the fixed rate borrowing portfolio - This indicator assists Authorities avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.

	31 March 2019 Actual	**31 March 2019 Proportion**	**2018/19 Original Limits Lower-Upper**
Up to 10 years	£45.9M	15%	Not set
10 to 20 years	£52.3M	17%	Not set
20 to 30 years	£53.6M	18%	Not set
30 to 40 years	£56.7M	19%	Not set
Over 40 years	£94.4M	31%	Not set

Principal sums invested for over 364 days - The purpose of this indicator is to contain the Council's exposure to the possibility of losses that might arise as a result of it having to seek early repayment or redemption of principal sums invested. The Actual figure reflects investment in the CCLA Property Fund

	2018/19 Limit	**2018/19 Actual**
Investments of 1 year and over	Not set	£5m