APPENDIX G

PRUDENTIAL INDICATORS for Capital Programme Proposals 2020/24

Local Authorities determine their own programmes for capital investment in fixed assets. The Prudential Code is the code of practice which ensures the Authority can demonstrate it has properly identified the proposed financing streams, including borrowing, for those investments and the consequences of those decisions. The key objectives of the Prudential Code are to ensure, within the Prudential Framework, that capital investment plans of the Authority are affordable, prudent and sustainable.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code, revised in December 2017 sets out the Prudential indicators that must be used, and the factors that must be taken into account. These indicators are reported below based on actual, current and planned capital budget proposals as in the proposed 2020/21 capital medium term financial plan.

Importantly, it should be noted that the proposed supported and unsupported borrowing results from the current and future capital budget proposals:

Borrowing budgeted in the capital budget proposals 2020/21 to 2023/24 is as follows:

- General Unsupported borrowing of £544,000 in 2020/21 and £1,000,000 from 2021/22 to 2023/24.
- Severn view replacement £1,833,000.
- New property investments of £2,588,000.
- City deal £311,000 in 2020/21 and £489,000 from 2021/22 to 2023/24.
- Tranche B of the Future schools initiative £1,173,000 in 2021/22 and £13,631,000 in 2022/23.
- £2,403,000 of supported borrowing from 2020/21 to 2023/24 which assists in financing the core capital programme and is funded through Revenue Support grant from the Welsh Government.

Capital Expenditure

The actual capital expenditure (excluding vehicle leasing) that was incurred in 2018/19 and the estimates of capital expenditure and financing for the current year and future years that are recommended for approval are:

Capital Expenditure £m	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
General Fund services	39.6	27.6	29.2	20.6	19.9	6.2
Commercial investments (£50m total pool)	30.7	16.7	2.6	0.0	0.0	0.0
TOTAL	**70.3**	**44.3**	**31.8**	**20.6**	**19.9**	**6.2**

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As stated in the Capital programme budget proposals, the medium term programme has been drafted, and a programme constructed for the next four years. There will be opportunity for the programme to be reviewed annually.

Proportion of financing costs to net revenue stream

Estimates of the ratio of financing costs (net interest and MRP) to net revenue stream for the current and future years, and the actual figures for 2018/19 are:

Proportion of Financing Costs to net revenue stream	**2018/19 actual**	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Interest £m	3.3	3.8	3.8	3.8	3.9	3.8
MRP £m	4.6	5.7	6.3	6.4	6.6	6.8
Total Financing costs £m	**7.9**	**9.5**	**10.1**	**10.2**	**10.5**	**10.6**
Net Revenue Stream (£m)	150.4	154.3	160.8	163.3	165.9	168.6
Proportion of net revenue stream %	**5.2%**	**6.1%**	**6.3%**	**6.2%**	**6.3%**	**6.3%**

The estimates of financing costs include current commitments and the proposals in the draft 2020/21 MTFP and are based on the actual and anticipated borrowing, net of investments.

Capital Financing Requirement

Estimates of the end of year Capital Financing Requirement (CFR) for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2019 are:

Capital Financing Requirement	**31.3.19 Actual £m**	**31.3.20 Estimate £m**	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
Commercial Investments CFR (including solar farm)	35.1	50.7	51.4	49.3	47.2	44.3
Other Loans CFR	**148.8**	**158.0**	**158.8**	**160.7**	**174.8**	**175.9**
Total Loans CFR	**183.9**	**208.7**	**210.2**	**210.0**	**222.0**	**220.2**
Other Debt Liabilities CFR	2.4	2.4	3.4	3.4	3.4	3.4
Total CFR	**186.3**	**211.1**	**213.6**	**213.4**	**225.4**	**223.6**

The Capital Financing Requirement measures the authority's underlying need to borrow for capital purposes. In accordance with best professional practice, Monmouthshire County Council does not associate borrowing with particular items or types of expenditure, other than under its current policy for determining its Minimum Revenue Provision (MRP). The authority has an integrated treasury management strategy (last approved on 7th March 2019 by Council). The Council is legally obliged to "have regard" to the Treasury Management Code and the Prudential Code "as amended or reissued from time to time" by the relevant Capital Finance Regulations so there is no requirement for the Council to explicitly adopt the

CIPFA Code of Practice for Treasury Management in the Public Services from 2020/21 onwards.

The Council manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be drawn between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the authority's underlying need to borrow for capital purposes alone.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total gross debt including other long term liabilities should be lower than its highest forecast CFR over the next three years. This is an indicator of prudence.

Net external borrowing is gross external borrowing offset by the levels of cash and treasury investments held. This is the borrowing budgeted to finance the capital programme.

A comparison of Net and Gross Debt to Capital Financing Requirement (Loans CFR)	31.3.19 actual	31.3.20 forecast	31.3.21 budget	31.3.22 budget	31.3.23 budget	31.3.24 budget
Net Debt	158.0	182.0	174.8	170.1	181.4	178.1
Gross Debt	178.3	197.0	189.8	185.1	196.4	193.1
Loans CFR	183.9	208.7	210.2	210.0	222.0	220.2

The Chief Officer – Resources (the Authority's S151 officer) reports that the Authority's gross external borrowing is expected to stay below the Capital Financing Requirement in 2020/21. The forecasts for later years takes into account current commitments, existing plans, and the proposals in the 2020/21 capital budget report.

Authorised Limit for External Borrowing

In respect of external debt, it is recommended that the Council approves the following Authorised Limit for its total external debt gross of investments for the next four financial years.

Authorised Limits	2019/20 for comparison	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit – borrowing	248.2	230.0	225.3	236.6	233.3
Authorised limit – PFI, leases & Right of use assets	4.4	5.4	5.4	5.4	5.4
Authorised limit - total external debt	**252.6**	**235.5**	**230.7**	**242.0**	**238.7**

The limits for borrowing and other long-term liabilities are identified separately. The Council is asked to approve these limits and to delegate authority to the Head of Finance or Deputy, to manage the Authority's borrowing within these limits in order to achieve best value for money for the Authority. The Authorised limit is intended to be a ceiling on borrowing levels. Any changes required to these limits will be reported to the Audit Committee or Council at the next opportunity following the required change to this ceiling.

These limits are consistent with the authority's current commitments, existing plans and draft budget proposals for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely, prudent but not worse case scenario, with sufficient headroom over and above this to allow for operational management including movements such as in year Cabinet or Council decisions which are in line with the Corporate Plan of the Authority or unusual cash movements.

Operational Boundary for External Debt

The Council is also asked to approve the following Operational Boundary for external debt for the same period.

Operational boundary	2019/20 for comparison	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Operational boundary - borrowing	218.0	210.8	206.1	217.4	214.1
Operational boundary - PFI, leases & Right of use assets	2.9	3.9	3.9	3.9	3.9
Operational boundary - total external debt	**220.9**	**214.8**	**210.0**	**221.3**	**218.0**

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit. It is expected that this will allow for movements such as normal variations in working capital and equates to the maximum external debt projected.

The Operational Boundary represents a key management tool for in-year monitoring by the Head of Finance or Deputy. The limits for borrowing and other long-term liabilities are identified separately. The Council is asked to approve these limits and to delegate authority to the Head of Finance or Deputy, to manage the Authority's borrowing within these limits under normal circumstances. If this boundary is exceeded, it will be reported to Audit Committee or Council at the next opportunity but as it is a management tool, it is not required to be amended.

In taking its decisions on the 2020/21 budget report, the Council is asked to note that the Authorised Limit determined for 2020/21 would be the statutory limit determined under section 3(1) of the local Government Act 2003.