APPENDIX 3

Prudential Indicators 2016/17 – 2019/20

1. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the PIs, which are designed to assist members overview and confirm capital expenditure plans.

Capital expenditure is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts in Table 1:

Table 1: Capital Expenditure Forecast 2016 to 2020

Capital expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	Approved £000	Estimate £000	Estimate £000	Estimate £000
Service Development & Integration	34,493	61,190	49,282	2,748	0
Customer, Commercial & Service Delivery	4,483	4,642	0	0	0
Finance & Investment	1,369	855	0	0	0
Growth & Homes	4,382	23,833	0	0	0
HRA	82,867	54,841	80,654	59,440	57,748
Finance Lease & PFI	**54**	**569**	**588**	**596**	**612**
Corporate Borrowing	**18,399**	**53,156**	**34,672**	**11,072**	**10,000**
TOTAL	**146,047**	**199,086**	**165,196**	**73,856**	**68,360**

Table 2 summarises the above capital expenditure plans and identifies whether the spend is financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Capital Expenditure Financing Plans 2016 to 2020

Capital expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	Approved £000	Estimate £000	Estimate £000	Estimate £000
General Fund*	63,180	136,427	91,459	17,472	10,400
HRA	82,867	62,659	80,654	59,440	57,960
Total	**146,047**	**199,086**	**172,113**	**76,912**	**68,360**
Financed by:					
Capital Grants and Contributions	52,534	79,067	56,077	6,000	0
Section 106	529	177	1,000	0	0
Revenue / Reserve Contributions	4,771	4,104	1,000	400	400
HRA Contributions (incl MRA)	30,853	382	14,232	2,200	21,500
Capital Receipts	38,961	62,199	65,132	57,240	36,460
Sub-Total	**127,648**	**145,930**	**137,441**	**65,840**	**58,360**
Net financing need for the year (borrowing)	**18,399**	**53,156**	**34,672**	**11,072**	**10,000**

*(incl. PFI, Leases and borrowing still to be allocated to schemes)

Part of the borrowing need includes financing of Reside 2 (Abbey 2 and Gascoigne Phase 1 regeneration). Funding of Reside 2 will be from a loan from the European

Investment Bank (EIB). Abbey Road 2 is now being let and is bringing in income, which will be used to repay the loan and interest to the EIB as well as provide significant net cash inflows into the Council.

1.2 The Council's borrowing requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP), a statutory annual revenue charge, reduces the borrowing need in line with each assets life. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. Table 3 sets out the CFR until 2019/20.

The significant increase in the CFR is due to the inclusion of the costs for Reside 1. The Reside 1 costs are financed through an external lender via a Special Purpose Vehicle and is effectively self financing.

The Council is asked to approve the CFR projections.

Table 3: Council's CFR 2015/16 – 2019/20

Capital expenditure	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Capital Financing Requirement					
CFR – General Fund	201,397	207,485	211,468	210,627	209,167
Reside 1	91,402	91,021	90,624	90,212	89,783
Reside 2	26,530	64,165	77,678	78,922	78,922
CFR – Housing	267,722	278,472	278,472	278,472	278,472
Total CFR	**587,051**	**641,143**	**658,242**	**658,233**	**656,344**
Movement in CFR	**8,953**	**54,092**	**17,100**	**-9**	**-1,889**
Movement in CFR represented by					
Net financing need for the year	18,820	63,102	27,086	11,840	10,612
Less MRP & other financing	-9,867	-9,011	-9,986	-11,849	-12,501
Movement in CFR	**8,953**	**54,092**	**17,100**	**-9**	**-1,889**

2. Affordability prudential indicators

The previous section covered the overall capital and control of borrowing PIs, but within this framework PIs are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.1 Estimates of the incremental impact of capital investment decisions on council tax (Band D).

This PI identifies the revenue costs associated with proposed changes to the three year capital program recommended in the budget report compared to the Council's existing approved commitments and current plans. The expectation is that the budget will be based on approved capital schemes' existing commitments and current plans but, if on review, this is not the case this will be reported to Members.

£	2016/17	2017/18	2018/19	2019/20
Council tax - band D	-	-	-	-

2.2 Estimates of the incremental impact of capital investment decisions on housing rent levels.

Similar to the council tax calculation, this PI identifies the trend in the cost of proposed changes in the housing capital program recommended in the budget report compared to the Council's existing commitments and plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on newly proposed changes. Any discrete impact will be constrained by rent controls.

Incremental impact of capital investment decisions on housing rent levels

£	2016/17	2017/18	2018/19	2019/20
Housing rent levels	-	-	-	-

3. Treasury indicator and limit for investments greater than 364 days.

The limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. They are based on the availability of funds at yearend. The Council is asked to approve the treasury indicator and limit:

£'000s	2016/17	2017/18	2018/19	2019/20
Maximum principal sums invested > 364 days	250,000	200,000	150,000	130,000

4. Treasury Indicators: Limits to Borrowing Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure: identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure: is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing: gross limits to reduce the Council's exposure to large fixed rate sums requiring refinancing.

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposures	2017/18	2018/19	2019/20
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
Limits on fixed interest rates: • ***Debt only*** • ***Investments only***	 100% 90%	 100% 90%	 100% 90%
Limits on variable interest rates • ***Debt only*** • ***Investments only***	 70% 80%	 70% 80%	 70% 80%

Maturity structure of fixed interest rate borrowing 2017/18		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2017/18		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

5. Treasury Indicators: Limits to Borrowing Activity

5.1 The Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary	2016/17	2017/18	2018/19	2019/20
£'000s	Approved	Estimate	Estimate	Estimate
Borrowing	650	750	800	850
Long term liabilities	55	52	49	48
Total	**705**	**752**	**849**	**898**

5.2 The Authorised Limit for external borrowing – this represents a control on the maximum level of borrowing, with a limit set, beyond which external borrowing is prohibited. This limit must be set or revised by the full Council. The limit set includes a margin for borrowing to fund the Council's property investments.

It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is also a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following Authorised Limit:

Authorised Limit	2016/17	2017/18	2018/19	2019/20
£'000s	**Approved**	**Estimate**	**Estimate**	**Estimate**
Borrowing	760	850	900	950
Long term liabilities	55	52	49	48
Total	**815**	**902**	**949**	**998**

5.3 **HRA CFR Cap -** the Council is also limited to a maximum HRA CFR through the HRA self financing regime. This limit is currently:

HRA Debt Cap	2016/17	2017/18	2018/19	2019/20
£'000s	**Approved**	**Estimate**	**Estimate**	**Estimate**
Total	277,649	291,599*	291,599*	291,599*

* The HRA debt cap is currently set at £277.649m, however the Council has recently been given approval from the Department for Communities & Local Government, to exceed this by £3.2m and by a further £10.75m in 2016/17, making the new total cap £291,599 onwards from 2016/17.