

The Capital Prudential and Treasury Indicators 2022/23 – 2024/25

The Local Government Act 2003 requires a Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (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 Council's capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. It is also essential that, within the Council, there is an understanding of the risks involved and there is sufficient risk management undertaken for each investment undertaken.

The Prudential Code was revised in 2017 with the main changes being the inclusion of the Capital Strategy requirements and the removal of some indicators. To demonstrate the Council has met these objectives, the Prudential Code sets out a number of indicators that are monitored each year. These indicators are outlined in this report.

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 Prudential Indicators, 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 agreed previously and those forming part of this budget cycle. The capital expenditure forecasts are included in the first part of Table 1.

1. The Council's borrowing requirement (CFR)

- 1.1 The Council's 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.
- 1.2 The CFR does not increase indefinitely, as the MRP, a statutory annual revenue charge, reduces the borrowing need in line with each asset's life. The CFR also includes 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 1 sets out the CFR until 2024/25 and are cumulative.
- 1.3 The IAS schemes are self-financing and are partly funded by grant and sales, with the rest of the borrowing funded by rental income expected to pay for the borrowing costs and provide an income stream to the Council. MRP for IAS properties is charged after a two-year stabilisation period and then for 50 years based on an annuity repayment schedule for residential properties and 40 years for Temporary Accommodation. The stabilisation period is to allow for schemes to be fully let and/or sold before dept repayment is made.
- 1.4 Members are asked to note that in-year movements to the IAS budgets will occur as development costs are confirmed, investment opportunities are identified or removed / sold. Budgets for 2022/23 onwards are best estimates and may change as financing and expenditure are confirmed. Currently the forecast spend on the IAS is reduced as some schemes have been delayed as they have not achieved the viability threshold.

Members are asked to approve the capital expenditure forecasts and the CFR projections included in table 1.

Table 1: Capital Expenditure Forecast and Council's CFR 2020/21 – 2024/25

Capital Expenditure	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s
General Fund				
<i>Gf - Adults Care & Support</i>	1,617	3,696	0	0
<i>Gf - Inclusive Growth</i>	8,047	2,969	0	0
<i>Gf - CIL</i>	731	0	0	0
<i>Gf - TfL</i>	1,560	0	0	0
<i>Gf - IT</i>	1,408	2,100	0	0
<i>Gf - Parks Commissioning</i>	12,073	6,108	0	0
<i>Gf - Culture and Heritage</i>	421	222	0	0
<i>Gf - Enforcement</i>	418	1,836	0	0
<i>Gf - My Place</i>	4,898	8,727	0	0
<i>Gf - Public Realm</i>	1,373	71	0	0
<i>Gf - Education, Youth & Child</i>	9,697	18,179	0	0
<i>Transformation</i>	2,354	0	0	0
Total GF Capital Expenditure	44,596	43,909	0	0
IAS*				
<i>IAS Residential</i>	267,086	317,451	206,102	151,592
<i>IAS Commercial</i>	51,749	504	0	0
Total IAS	318,835	317,955	206,102	151,592
HRA				
<i>HRA Stock Investment</i>	17,691	20,000	20,000	20,000
<i>HRA Estate Renewal</i>	3,500	6,747	0	0
<i>HRA New Build Schemes</i>	1,611	434	0	0
HRA Total	22,802	27,181	20,000	20,000
Financed by:				
<i>HRA/MRR</i>	-22,802	-27,181	-20,000	-20,000
<i>CIL/S106</i>	-1,460	-726	0	0
<i>Revenue</i>	-550	-1,544	0	0
<i>Capital Receipts (Transformation)</i>	-2,354	0	0	0
<i>Self-Financing (excluding IAS)</i>	-1,501	-2,110	0	0
<i>Other Grant</i>	-46,157	-24,263	0	0
<i>IAS Grants (RtB, GLA) and sales</i>	-82,569	-79,128	-43,455	-45,143
Total Financing	-157,394	-134,951	-63,455	-65,143
Financed by Borrowing	228,839	254,093	162,647	106,449
<i>PFI Additions & Repayments</i>	78,991	-3,995	-4,294	-4,624
Net financing need for the year	307,830	250,098	158,353	101,825

1.5 A breakdown of the IAS forecast spend, is in table 2. These amounts are the gross spend, with grant and sales removed to produce the CFR change in table 1.

Table 2: IAS Gross Expenditure Forecast 2022/23 – 2025/26

Investment and Acquisitions Strategy		22/23	23/24	24/25	25/26
Project	Forecast	Forecast	Budget	Budget	Budget
	£000s	£000s	£000s	£000s	£000s
C04065	Becontree Avenue 200	154.0	-0.0	-	-
C03089	Becontree Heath GW5	2.0	-234.8	-	-
C05065	Chequers Lane	2.6	314.2	-	-
C04069	Crown House	2,198.6	3,369.3	-	-
C02986	Gascoigne East	918.0	0.4	-	-
C04099	Gascoigne West Phase 1	1,640.0	-669.8	-	-
C03086	House for Artists	116.1	-12.2	-	-
C03072	Sacred Heart	174.5	-1.5	-	-
	Completed & Handed Over	5,205.8	2,765.7	-	-
C04067	12 Thames Road	29,985.6	22,106.7	4,539.1	-
C05081	Beam Park - Phase 7	-	-	30,355.8	3,266.1
C05066	Beam Park Phase 6	580.7	62,658.8	53,529.5	43,678.1
C05106	Gascoigne Road	500.0	500.0	-	-
C05073	Gascoigne East 3B	8,514.6	54,025.2	64,844.1	35,234.0
C04062	Gascoigne East Phase 2 Block C	1,076.2	559.3	-	-
C05076	Gascoigne East Phase 2 Block E1	368.5	1,550.5	1,576.2	620.5
C05092	Gascoigne East Phase 2 Block E2	23,675.3	1,562.8	7.0	-
C05091	Gascoigne East Phase 2 Block F	38,857.4	13,387.8	1,235.1	-
C05090	Gascoigne East Phase 3A Plot I	14,439.9	17,112.4	3,872.7	541.6
C05026	Gascoigne East Phase 3A Plot J	23,530.6	16,438.7	790.5	-
C05025	Gascoigne West Phase 2	69,622.1	41,512.9	350.9	-
C04068	Oxlow Lane	7,904.7	5,914.6	255.8	-
C05035	Padnall Lake Phase 1	3,662.0	6,075.2	-	-
C05093	Padnall Lake Phase 2	13,908.5	13,232.5	1,885.3	-
C05094	Padnall Lake Phase 3	772.2	2,744.3	165.9	12,966.2
C04066	Roxwell Road	4,716.1	11,397.8	9,825.7	3,342.8
C03084	Sebastian Court	344.5	783.1	-	-
C05041	Transport House	6,587.4	25,091.5	13,098.6	-
C05082	Trocoll House	687.1	718.8	522.6	317.4
C05020	Woodward Road	7,827.5	7,149.6	508.4	-
	On-Site (Post-G4)	257,560.8	304,522.5	187,363.2	99,966.6
C05100	Barking Riverside Health & Leisure	351.9	2,196.5	436.6	17,585.7
C05047	Gascoigne West Phase 3	-	1,098.4	10,768.4	33,202.8
C05071	Brocklebank Lodge	51.4	1,077.8	-	-
C03080	Jervis Court	7.8	1,287.0	222.2	-
C05103	Town Quay Wharf	4,826.5	3,585.5	7,311.5	837.3
	IP Approved (Pre-G4)	5,237.6	9,245.2	18,738.7	51,625.8
C04057	TRAVELODGE DAGENHAM	0.6	-	-	-
C04091	WELBECK WHARF	769.6	248.5	-	-
C05024	FILM STUDIOS	116.7	-	-	-
C05042	26 THAMES RD	401.1	-	-	-
C05067	DAGENHAM HEATHWAY	42.3	1.2	-	-
C05072	INDUSTRIA	29,676.4	253.8	-	-
C05110	Purchase of Maritime House	20,512.8	-	-	-
C05074	BARKING BUISNESS CENTRE	229.4	-	-	-
	Total Commercial	51,748.9	503.5	-	-
	Total IAS Expenditure	319,753.1	317,036.9	206,101.9	151,592.5

2. Treasury Indicators: Limits to Borrowing Activity

2.1 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.

2.2 The Authorised Limit for external borrowing: 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 an additional margin for borrowing to fund the Council's IAS.

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 drop in operational boundary is partly due to the potential sale of Muller a year earlier and uncertainty and delays for pipeline scheme. There is the potential for the operational boundary to increase further for 2024/25 onward but the impact on 2023/24 will be limited.

The Council is asked to approve the following Operational Boundary and Authorised Limit:

Table 3: Capital Expenditure Forecast and Council's CFR 2022/23 – 2025/26

Capital Expenditure	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s
Capital Financing Requirement				
Opening CFR as at 1 April	1,369,844	1,660,797	1,822,378	1,961,730
Change in Year – General Fund	290,953	161,580	139,353	79,825
Change in Year – Housing	0	0	0	0
Net movement in CFR	290,953	161,580	139,353	79,825
Total CFR as at 31 March	1,660,797	1,822,378	1,961,730	2,041,556
Net financing need for the year	308,748	249,180	158,353	101,825
Less: MRP*	-14,395	-16,000	-19,000	-22,000
Less: Capital Receipts	-3,400	-71,600	0	0
Movement in CFR	290,953	161,580	139,353	79,825
Long & Short-Term Borrowing	1,180,294	1,430,294	1,630,294	1,780,294
PFI and finance lease liabilities*	279,357	275,362	271,068	266,444
Total debt 31 March	1,459,651	1,705,656	1,901,362	2,046,738
Under / (Over) Borrowing	-201,146	-116,722	-60,368	5,182
Operational Boundary	1,600,000	1,850,000	2,000,000	2,100,000
Authorised Limit	1,700,000	1,950,000	2,100,000	2,200,000

** MRP is estimated, based on when schemes will be operational and start repaying capital

3. Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators 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:

3.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of General Fund Capital expenditure against the net revenue stream. MRP is net of self-financing, which includes the investment strategy and leases. MRP will be much higher but will be funded from the income streams generated from rent. The interest budget will also change significantly with a large increase in interest payable and receivable. The net budget as been used but there is an expectation that interest costs will be lower than the net budget. Currently the net income forecast for 2022/23 is nil, with the surplus interest to be transferred to the Investment Fund Reserve. Investment income is also as per budget but there is an expectation that this will at least be achieved in each of the forecast years, with forecast for 2022/23 being as per budget.

General Fund Cost of Capital	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£000s	£000s	£000s	£000s
Net Cost of Services	187,190	212,512	219,277	226,198
Cost of Capital				
<i>MRP net of Self Financing and Leases</i>	12,021	10,274	10,900	11,527
<i>GF Net Interest Budget</i>	8,178	8,178	8,178	8,178
<i>Investment Income</i>	-6,587	-6,587	-6,587	-6,587
Net Cost of Capital	13,612	11,865	12,491	13,118
Financing Cost to Net Revenue	7.27%	5.58%	5.70%	5.80%

4. Treasury indicator and limit for investments greater than 365 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 maximum principal sums invested greater than 364 days is high to allow the treasury section to manage the significant cashflows expected as a result of the Council's IAS. The Council is asked to approve the treasury indicator and limit:

£'000s	2022/23	2023/24	2024/25	2025/26
Max. principal sums invested > 364 days	250,000	200,000	150,000	150,000

5. 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	2023/24	2024/25	2025/26
	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	100%	100%	100%
• Investments only	90%	90%	90%
Limits on variable interest rates			
• Debt only	70%	70%	70%
• Investments only	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	50%
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 2023/24		
	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%

5.1 HRA CFR Forecast

HRA Debt	2023/24	2024/25	2025/26	2025/26
£'000s	Approved	Estimate	Estimate	Estimate
Total	310,628	310,628	310,628	310,628

6. Liability Benchmark Treasury Indicator

- 6.1 A local authority should estimate and measure the liability benchmark ideally over the full debt maturity profile of a local authority. Local authorities should have a strong grasp of both their existing debt maturity profile and also how minimum revenue provision (MRP) and other cash flows affect their future debt requirement.
- 6.2 For the Council's liability benchmark data, the full debt and MRP profile has been used, which captures the full repayment period of the Council's IAS. Key figures in each chart will be identified to highlight the impact on borrowing costs, debt repayment and MRP.
- 6.3 The liability benchmark data will be provided as part of the quarterly reporting of the IAS and Treasury. The key indicators are included in the main body of the TMSS as section 11.