

## Prudential Indicators 2015/16 – 2017/18

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.
- 1.1 **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 2014 to 2018

Capital expenditure	2013/14 Actual £000	2014/15 Approved £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Adult & Community	6,580	10,451	1,241		
Children's Services	29,042	27,632	67,523	26,540	
Environment & Housing	4,306	5,492	236		
Chief Executive	8,343	9,139	9,292	4,200	1,000
EIB: Abbey Road 2 & Gascoigne	0	34,200	21,100	20,000	12,000
Finance lease & PFI	3,455	25	54	69	88
<b>General Fund</b>	<b>51,726</b>	<b>86,939</b>	<b>99,446</b>	<b>50,809</b>	<b>13,088</b>
HRA	71,087	90,439	81,899	43,779	24,495
<b>Total</b>	<b>122,813</b>	<b>177,378</b>	<b>181,345</b>	<b>94,588</b>	<b>37,583</b>

Table 2 below summarises the above capital expenditure plans and how these plans will be financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Capital Expenditure Financing Plans 2014 to 2018

Capital expenditure	2013/14 Actual £000	2014/15 Approved £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
General Fund	51,726	86,939	99,446	50,809	13,088
HRA	71,087	90,439	81,899	43,779	24,495
<b>Total</b>	<b>122,813</b>	<b>177,378</b>	<b>181,345</b>	<b>94,588</b>	<b>37,583</b>
<b>Financed by:</b>					
Capital Grants	50,604	31,372	70,594	26,540	
Section 106	889	1,074			
Revenue Contributions	9,249	4,703	400		
Capital Receipts	15,960	11,522	6,365	1,200	
HRA Contributions	42,656	90,439	78,699	33,029	24,495
<b>Sub-Total</b>	<b>119,358</b>	<b>139,110</b>	<b>156,058</b>	<b>60,769</b>	<b>24,495</b>
<b>Net financing need for the year</b>	<b>3,455</b>	<b>38,268</b>	<b>25,287</b>	<b>33,819</b>	<b>13,088</b>

## 1.2 The Council's borrowing requirement (CFR)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total 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 above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly 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 2017/18. The Council is asked to approve the CFR projections.

**Table 3: Council's CFR 2015/16 – 2017/18**

<b>Capital expenditure</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>Actual £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>
<b>Capital Financing Requirement</b>					
CFR – General Fund	217,021	246,058	258,502	270,018	273,632
CFR – housing	267,722	267,722	270,922	281,672	281,672
<b>Total CFR</b>	<b>484,743</b>	<b>513,780</b>	<b>529,424</b>	<b>554,690</b>	<b>559,303</b>
<b>Movement in CFR</b>	<b>(6,835)</b>	<b>29,037</b>	<b>15,644</b>	<b>25,266</b>	<b>4,614</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year	3,455	38,268	25,287	33,819	13,088
Less MRP and other financing movements	(10,290)	(9,231)	(9,643)	(8,553)	(8,475)
<b>Movement in CFR</b>	<b>(6,835)</b>	<b>29,037</b>	<b>15,644</b>	<b>25,266</b>	<b>4,614</b>

## 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 Actual and estimates of the ratio of financing costs to net revenue stream

This PI identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

%	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
<b>General Fund</b>	6.2%	5.6%	6.5%	5.9%	6.0%
<b>HRA</b>	9.1%	9.2%	9.0%	8.8%	8.8%

## 2.2 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.

£	2014/15	2015/16	2016/17	2017/18
<b>Council tax - band D</b>	Nil	Nil	Nil	Nil

## 2.3 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

£	2014/15	2015/16	2016/17	2017/18
<b>Housing rent levels</b>	Nil	Nil	Nil	Nil

## 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	2014/15	2015/16	2016/17	2017/18
<b>Maximum principal sums invested &gt; 364 days</b>	80,000	120,000	120,000	120,000

## 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:

<b>Interest rate exposures</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	70%	70%	70%
<b>Limits on fixed interest rates:</b>			
• <b>Debt only</b>	100%	100%	100%
• <b>Investments only</b>	80%	80%	80%
<b>Limits on variable interest rates</b>			
• <b>Debt only</b>	70%	70%	70%
• <b>Investments only</b>	80%	80%	80%

<b>Maturity structure of fixed interest rate borrowing 2015/16</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	20%
<b>12 months to 2 years</b>	0%	40%
<b>2 years to 5 years</b>	0%	70%
<b>5 years to 10 years</b>	0%	70%
<b>10 years and above</b>	0%	100%

<b>Maturity structure of variable interest rate borrowing 2015/16</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	40%
<b>12 months to 2 years</b>	0%	40%
<b>2 years to 5 years</b>	0%	70%
<b>5 years to 10 years</b>	0%	70%
<b>10 years and above</b>	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.

<b>Operational boundary £'000s</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>
<b>Borrowing</b>	675	695	695	695
<b>Long term liabilities</b>	58	56	54	52
<b>Total</b>	<b>733</b>	<b>751</b>	<b>749</b>	<b>747</b>

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.

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:

<b>Authorised Limit £'000s</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>
<b>Borrowing</b>	741	745	738	741
<b>Long term liabilities</b>	59	57	55	53
<b>Total</b>	<b>800</b>	<b>802</b>	<b>793</b>	<b>794</b>

**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:

<b>HRA Debt Cap £'000s</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>	<b>2016/17 Estimate</b>	<b>2017/18 Estimate</b>
<b>Total</b>	277,649	277,649*	280,849*	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 in 2015/16 and by a further £10.75m in 2016/17, making the new total cap £280,849 in 2015/16 and £291,599 onwards from 2016/17.