

Prudential Indicators 2015/16 – 2018/19

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 2015 to 2019

Capital expenditure	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual £000	Approved £000	Estimate £000	Estimate £000	Estimate £000
Adult & Community Service	9,487	2,192	3,656	1,320	400
Children's Services	29,953	27,111	61,199	50,031	-
Environment	3,887	4,005	2,794	2,132	1,040
Chief Executive	6,995	10,669	9,742	4,620	172
Housing	16,928	9,222	28,379	11,638	1,244
General Fund	67,250	53,199	105,769	69,740	2,856
HRA	78,544	81,493	79,059	56,070	63,128
Total - Approved Capital Programme	145,794	134,691	184,828	125,810	65,984
Finance Lease & PFI Additions	25	54	69	88	96
Corporate Borrowing to be allocated				6,651	8,788
TOTAL	145,819	134,746	184,897	132,550	74,868

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.

A significant part of the borrowing need (£41m) includes financing of Reside 2 (Abbey 2 and Gascoigne regeneration), which was borrowed in advance of need from the European Investment Bank in January 2015. Members have agreed to use up to £2m from reserves to cover the cost of carry from borrowing in advance.

In 2014/15 and 2015/16 £27m was spent on Reside 2 and is reflected in the Actual spend for 2014/15 and the Approved spend in 2015/16. Abbey 2 is now being let and is bringing in income, which will predominantly be used to repay the loan and interest to the EIB.

Table 2: Capital Expenditure Financing Plans 2015 to 2019

Capital expenditure	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual £000	Approved £000	Estimate £000	Estimate £000	Estimate £000
General Fund*	67,275	53,253	102,838	56,055	11,740
HRA	78,544	81,493	79,059	56,070	63,128
Total	145,819	134,746	181,897	112,125	74,869
Financed by:					
Capital Grants and Contributions	47,724	48,816	60,206	29,481	0
Section 106	1,187	119,319	1,000	-	0
Revenue / Reserve Contributions	13,161	1477.421	875	400	400
HRA Contributions (incl MRA)	51,861	40,730	56,568	45,338	47,378
Capital Receipts	14,035	22,920	11,741	10,732	15,750
Sub-Total	127,966	114,063	130,390	85,951	63,528
Net financing need for the year (borrowing)	17,853	20,683	51,507	26,174	11,340

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

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 2018/19.

The significant increase in the CFR in 2014/15 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 – 2017/18

Capital expenditure	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Capital Financing Requirement					
CFR – General Fund	207,701	206,659	210,999	217,127	219,447
Reside 1	84,847	84,481	84,100	83,703	83,291
Reside 2	17,828	27,050	55,209	66,847	68,091
CFR – Housing	267,722	270,922	281,672	281,672	281,672
Total CFR	578,098	589,112	631,980	649,350	652,501
Movement in CFR	93,355	11,014	42,868	17,369	3,151
Movement in CFR represented by					
Net financing need for the year	102,936	20,683	51,507	26,174	11,340
Less MRP and other financing movements	(9,581)	(9,669)	(8,638)	(8,804)	(8,188)
Movement in CFR	93,355	11,014	42,868	17,369	3,151

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.

%	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Estimate	Estimate	Estimate
General Fund	6.2	5.9	6.2	8.0	8.6
HRA	9.1	8.7	9.0	8.7	8.7

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.

£	2015/16	2016/17	2017/18	2018/19
Council tax - band D	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

£	2015/16	2016/17	2017/18	2018/19
Housing rent levels	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	2015/16	2016/17	2017/18	2018/19
Maximum principal sums invested > 364 days	200,000	170,000	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	2016/17	2017/18	2018/19
	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	80%	80%	80%
Limits on variable interest rates			
• Debt only	70%	70%	70%
• Investments only	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2016/17		
	Lower	Upper
Under 12 months	0%	20%
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%	100%

Maturity structure of variable interest rate borrowing 2016/17		
	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 £'000s	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	650	693	710	714
Long term liabilities	55	52	49	48
Total	705	745	760	761

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 short-term borrowing and also to borrow the remaining £61m available from the EIB.

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 £'000s	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	760	803	820	824
Long term liabilities	55	52	49	48
Total	815	855	870	871

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 £'000s	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 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.