

**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 Capital Financing Requirement (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 be aware that in-year movements to the IAS budgets will occur as development costs are confirmed, investment opportunities are identified and, in some cases, schemes are not agreed. Budgets included in

2021/22 and onwards are best estimates and may change as financing and expenditure are confirmed. 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**

<b>Capital Expenditure</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>General Fund</b>				
Adults Care & Support	1,000	1,604	-	-
Community Solutions	74	-	-	-
Core	1,231	1,145	-	-
CIL	623	878	-	-
Culture, Heritage & Recreation	3,718	8,022	250	0
Enforcement	591	2,369	0	-
Inclusive Growth	10,236	0	0	0
Transport for London	554	893	-	-
My Place	7,028	6,518	5,190	0
Public Realm	1,530	732	-	-
Education, Youth and Childcare	25,297	39,687	24,263	0
Other	331	1,634	0	0
Transformation	6,094	1,990	-	-
<b>Total General Fund Capital Expenditure</b>	<b>58,307</b>	<b>65,472</b>	<b>29,703</b>	<b>0</b>
<b>Investment and Acquisition Strategy*</b>				
IAS Post Gateway 2	398,209	418,168	373,174	182,798
<b>Total Investment Strategy Expenditure</b>	<b>398,209</b>	<b>418,168</b>	<b>373,174</b>	<b>182,798</b>
<b>HRA</b>				
Stock Investment (My Place)	19,738	43,892	23,000	23,000
Estate Renewal (Be First)	8,400	8,800	0	0
New Build Schemes (Be First)	843	2,088	0	0
<b>HRA Total</b>	<b>28,981</b>	<b>54,780</b>	<b>23,000</b>	<b>23,000</b>
<b>Financed by:</b>				
HRA/MRR	-28,981	-54,780	-23,000	-23,000
CIL/S106	-254	-1,376	-100	0
Revenue	-665	-2,149	0	0
Capital Receipts (Transformation)	-6,094	-1,990		
Self-Financing	-1,968	-2,768		
Other Grant	-37,087	-46,157	-24,263	0
IAS Grants (RtB, GLA) and sales	-69,927	-93,313	-109,133	-46,768
<b>Total Financing</b>	<b>-144,976</b>	<b>-202,533</b>	<b>-156,496</b>	<b>-69,768</b>
<b>Financed by Borrowing</b>	<b>340,521</b>	<b>335,887</b>	<b>269,381</b>	<b>136,030</b>
PFI Additions (Travelodge) & Repayments	- 3,009	70,000	- 3,459	- 3,768
<b>Net financing need for the year</b>	<b>337,512</b>	<b>405,887</b>	<b>265,922</b>	<b>132,262</b>

\* a breakdown of the IAS is included in table 3 below

1.5 A breakdown of the IAS forecast spend, is in table 3 below. These amounts are the gross spend, with grant and sales removed to produce the CFR change in table 1.

**Table 3: IAS Gross Expenditure Forecast 2021/22 – 2024/25**

<b>Investment and Acquisitions Strategy</b>		<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>
<b>Code</b>	<b>Project</b>	<b>Forecast</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
		<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
	<b>Residential Developments</b>				
FC04067	12 Thames Road	11,469	32,688	25,108	-
FC04065	200 Becontree	3,245	-	-	-
FC03086	A House for Artists	3,061	-	-	-
FC05100	Barking Riverside Health	53	3,818	17,343	17,316
FC05066	Beam Park	44,030	21,124	38,685	32,427
<b>TBC</b>	Beam Park Phase 4 / 7 -	17,711	155	34,366	8,512
FC03089	Becontree Heath New Build	787	-	-	-
FC05071	Brocklebank Lodge	927	3,110	7,892	5,938
FC05065	Chequers Lane	13,037	563	235	-
FC04069	Crown House	25,757	2,697	-	-
FC05090	Gascoigne East 3A - Block I	13,984	28,633	4,751	659
FC05073	Gascoigne East 3B	2,325	19,503	54,194	59,742
FC05076	Gascoigne East Phase 2 E1	4,885	21,621	38,480	-
FC05026	Gascoigne East Phase 3	3,430	18,081	20,068	1,739
FC04099	Gascoigne West P1	32,602	6,343	983	-
FC05025	Gascoigne West Phase 2	39,483	73,439	32,422	13,524
FC04062	Gascoigne East Phase 2 C1	30,719	433	-	-
FC04062	Gascoigne East Phase 2 E	47,021	20,374	4,946	-
FC04062	Gascoigne East Phase 2 F	49,060	43,255	9,684	1,194
<b>TBC</b>	Jervis Court - Scheme	2,763	13,057	8,442	4
FC04068	Oxlow Road	5,509	7,585	8,150	-
FC05035	Padnall Lake	4,002	4,620	4,683	-
FC05093	Padnall Lake Phase 2	3,973	11,260	8,028	2,758
FC05094	Padnall Lake Phase 3	705	336	17,675	34,076
FC04066	Roxwell Road	3,194	9,492	14,676	3,066
	Sacred Heart / Sebastian Court	9,036	-	-	-
FC05103	Town Quay Wharf	264	9,465	6,216	146
FC05041	Transport House	880	24,045	14,750	1,652
FC05082	Trocoll House	661	995	729	45
FC05020	Woodward Road	7,122	10,093	671	-
	<b>Total for Residential</b>	<b>381,687</b>	<b>386,784</b>	<b>373,174</b>	<b>182,798</b>
	<b>Temporary Accommodation</b>				
Misc	Weighbridge, Wivenhoe & Grays	738	-	-	-
FC04101	Margaret Bondfield	-	4,455	-	-
	<b>Total for Temporary Accom.</b>	<b>738</b>	<b>4,455</b>	<b>-</b>	<b>-</b>
	<b>Commercial Investments</b>				
FC04091	Welbeck Wharf	1,246	3	-	-
FC05024	Film Studios	3,739	-	-	-
	BBC / Dagenham Heathway	80	-	-	-
	Thames Road	1,438	97	-	-
FC05072	Industria	9,279	26,830	-	-
	<b>Total for Commercial</b>	<b>15,783</b>	<b>26,930</b>	<b>-</b>	<b>-</b>
	<b>Total for Investment Strategy</b>	<b>398,209</b>	<b>418,168</b>	<b>373,174</b>	<b>182,798</b>

## 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 2023/24 onward but the impact on 2022/23 will be limited.

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

**Table2: Capital Expenditure Forecast and Council's CFR 2021/22 – 2024/25**

Capital Expenditure	2021/22 actual	2022/23	2023/24	2024/25
	£000s	£000s	£000s	£000s
<b>Capital Financing Requirement</b>				
<b>Opening CFR as at 1 April</b>	<b>1,059,113</b>	<b>1,337,472</b>	<b>1,722,650</b>	<b>1,972,571</b>
Change in Year – General Fund	278,360	385,177	249,921	115,262
Change in Year – Housing	0	0	0	0
<b>Net movement in CFR</b>	<b>278,360</b>	<b>385,177</b>	<b>249,921</b>	<b>115,262</b>
<b>Total CFR as at 31 March</b>	<b>1,337,472</b>	<b>1,722,650</b>	<b>1,972,571</b>	<b>2,087,833</b>
<b>Net financing need for the year</b>	<b>337,513</b>	<b>405,887</b>	<b>265,921</b>	<b>132,262</b>
<b>Less: MRP*</b>	-12,247	-15,000	-16,000	-17,000
<b>Less: Capital Receipts</b>	-46,906	-5,710	0	0
<b>Movement in CFR</b>	<b>278,360</b>	<b>385,177</b>	<b>249,921</b>	<b>115,262</b>
Long & Short-Term Borrowing	1,063,850	1,313,850	1,613,850	1,813,850
PFI and finance lease liabilities*	200,365	270,365	266,906	263,138
<b>Total debt 31 March</b>	<b>1,264,215</b>	<b>1,584,215</b>	<b>1,880,756</b>	<b>2,076,988</b>
<b>Under / (Over) Borrowing</b>	<b>-73,257</b>	<b>-138,434</b>	<b>-91,815</b>	<b>-10,845</b>
<b>Operational Boundary</b>	<b>1,700,000</b>	<b>1,600,000</b>	<b>1,900,000</b>	<b>2,050,000</b>
<b>Authorised Limit</b>	<b>1,800,000</b>	<b>1,700,000</b>	<b>2,000,000</b>	<b>2,150,000</b>

\*\* 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.

General Fund Cost of Capital	2021/22 Forecast Outturn	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
	£000s	£000s	£000s	£000s
<b>Net Cost of Services (estimate)</b>	<b>161,318</b>	<b>176,365</b>	<b>176,909</b>	<b>179,817</b>
<b>Cost of Capital</b>				
<i>MRP*</i>	8,658	9,058	9,458	9,858
<i>GF Net Interest Budget</i>	7,090	6,890	6,690	6,490
<i>Investment Income*</i>	-6,587	-6,587	-6,587	-6,587
<b>Net Cost of Capital</b>	<b>9,161</b>	<b>9,361</b>	<b>9,561</b>	<b>9,761</b>
<b>Financing Cost to Net Revenue</b>	<b>5.68%</b>	<b>5.31%</b>	<b>5.40%</b>	<b>5.43%</b>

\* Additional MRP for operational residential schemes will offset against and increase in investment income

The estimates of financing costs include current commitments and the proposals in this budget report.

#### 3.2 HRA ratios: indicator identifies the trend in the cost of General Fund Capital expenditure against the net revenue stream

	2021/22	2022/23	2023/24	2024/25
	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s
<b>HRA debt £m</b>	310,628	310,628	310,628	310,628
<b>No. of HRA dwellings</b>	16,328	16,078	15,828	15,578
<b>Debt per dwelling £</b>	<b>19.02</b>	<b>19.32</b>	<b>19.63</b>	<b>19.94</b>

### 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	2021/22	2022/23	2023/24	2024/25
<b>Max. principal sums invested &gt; 364 days</b>	350,000	300,000	250,000	250,000

## 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:

<b>Interest rate exposures</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</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>	90%	90%	90%
<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 2020/21</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	50%
<b>12 months to 2 years</b>	0%	60%
<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 2020/21</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%

### 5.3 HRA CFR Forecast

<b>HRA Debt</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>£'000s</b>	<b>Approved</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>Total</b>	<b>310,628</b>	<b>310,628</b>	<b>310,628</b>	<b>310,628</b>