Appendix 10

ESTIMATED CAPITAL PRUDENTIAL INDICATORS 2015/2016 – 2017/2018

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

The Local Government Act 2003 requires all local authorities to have regard to the Prudential Code for Capital Finance. The Code states that a soundly formulated capital programme must be driven by the desire to provide high quality, value for money public services. As a consequence, the Code recognises that in making its decisions to make capital investment, the Council must have explicit regard to:

- affordability (e.g. implications for Council Tax);
- prudence and sustainability (e.g. implications for external borrowing);
- option appraisal;
- asset management planning;
- strategic planning for the Council;
- achievability of the forward plan.

The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. To demonstrate local authorities have fulfilled these objectives, the Code sets out the indicators that must be used and the factors that must be taken into account.

Under the Prudential Code for Capital Finance in Local Authorities, local authorities determine their own level of capital expenditure.

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans.

Members are asked to approve the capital expenditure forecasts, which are detailed more fully in Appendix 9

Capital expenditure	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	Total Estimate £'000
Arch	16,082	914	4,058	21,054
Finance (Corporate Services)	31,000	31,000	1,000	63,000
Housing - GF	10,930	11,151	0	22,081
Housing - HRA	16,760	14,258	7,831	38,849
IT (Corporate Services)	8,391	3,300	350	12,041
Leisure Services	7,260	14,436	11,760	33,456
Planning And Development	26	0	0	26
Strategic Property	11,421	22,095	12,742	46,258
Fire And Rescue	963	735	761	2,459

Capital expenditure	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	Total Estimate £'000
Neighbourhood Services	9,927	3,457	7,829	21,213
Technical Services	56,766	45,604	41,979	144,349
Public Protection	111	0	0	111
Schools	20,130	15,615	10,984	46,729
Adult Services	695	0	0	695
Total Programme	**190,462**	**162,565**	**99,294**	**452,321**

The table below summarises how the above capital expenditure is being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	Total funding £'000
External Grants	61,622	27,345	37,221	126,188
Capital Receipts	8,727	5,921	10,876	25,524
GF Revenue Contributions (RCCO)	355	250	270	875
HRA Contributions (MRR &RCCO)	8,493	8,339	7,641	24,473
HRA Borrowing	6,186	5,634	0	11,820
GF Borrowing (Balance)	105,079	115,076	43,286	263,441
Total Funding	**190,462**	**162,565**	**99,294**	**452,321**

The Council's borrowing need (the Capital Financing Requirement)

The Capital Financing Requirement (CFR) is the Council's underlying need to borrow for a capital purpose.

All the capital assets the Council has ever bought will have been in part paid for by capital receipts, grants and revenue contributions. The remaining part which has not yet been paid for through revenue or capital resources is described as the CFR. In this respect it could be viewed like a mortgage. You have paid for the house (assets), have some equity in it (capital receipts etc.), but have not yet paid off the mortgage (CFR).

The CFR increases each year by capital spend, and decreases by both capital financing (capital receipts, grants etc.) and an annual revenue charge called the Minimum Revenue Provision (MRP).

The CFR is increasing by £212 million over the next three years and is shown below.

The Council is asked to approve the following CFR projections.

	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
CFR – general fund	545,403	651,743	759,092	842,178	850,156
CFR – HRA	98,103	104,226	112,412	118,046	118,046
Total CFR	**643,506**	**755,969**	**871,504**	**960,224**	**968,202**
Movement in CFR		112,463	115,535	88,720	7,978

The above financing need includes other long term liabilities, such as PFI and leasing arrangements.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Fund balances / reserves	109,887	108,227	99,700	87,273
Capital receipts	2,047	2,547	2,847	500
Provisions	47,853	5,500	5,500	4,500
Other	11,027	8,027	5,027	2,027
Total core funds	**170,814**	**124,301**	**113,074**	**94,300**
Working capital*	1,432	1,432	1,432	1,432
(Under)/over borrowing	-11,620	-8,207	-9,967	-562
Expected investments	**160,626**	**117,526**	**104,539**	**95,170**

**Working capital balances shown are estimated based on 2013/14 year end.*

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:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	2013/14 Actual %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
General Fund	8.1%	8.8%	12.1%	15.5%	17.6%
HRA	13.6%	13.1%	13.5%	12.4%	12.2%

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

Incremental impact of capital investment decisions on council tax and housing rents

The estimate of the incremental impact of the new capital investment decisions proposed for the forthcoming year and following two financial years over and above capital investment decisions that have previously been taken are:

The impact of the new schemes on Band D Council Tax and housing rents are expected to be:

Incremental impact of capital investment on -	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	£4.28	£58.35	£128.60	£180.78
Housing rent levels	£19.55	£45.67	£69.74	£86.70

Authorised Limit for External Debt

This is an important indicator, as it is part of the Local Government Act 2003 requirements.

The Authorised Limit is the maximum amount the Council could afford to borrow in the short term but would not be sustainable in the long term. It should be set at the expected borrowing position, plus any expectations for borrowing in advance of need, plus some headroom to cope with the unexpected.

It is set as an assessment of how much the Council may need to borrow above expectations if an unforeseen incidence happened. This could be the delay in a large capital receipt, the failure of the Council Tax system etc., something that upsets the cash flow but will be corrected over time.

So the Authorised Limit, if set properly, is an alarm mechanism that, if breached, means there is a problem with the Council's finances.

The Council is asked to approve the following authorised limit:

Authorised limit	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	844,867	989,491	1,084,721	1,111,621
Other long term liabilities	94,099	91,132	87,790	84,714
Total	**938,966**	**1,080,623**	**1,172,511**	**1,196,335**

Operational Boundary for External debt

Whilst the Authorised Limit is an overall cap on borrowing, the Operational Boundary is where the Council would expect its borrowings to be, assuming it was fully borrowed up to the anticipated CFR. It is only a guide and may be breached or undershot without significant concern, as borrowings will be driven by economic and market considerations as well as interest rates.

The Council is asked to approve the following operational boundary:

Operational boundary	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	704,056	824,576	903,934	926,350
Other long term liabilities	78,416	75,944	73,159	70,595
Total	**782,472**	**900,520**	**977,093**	**996,945**

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently £107 million.

Treasury management limits on 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. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

	2015/16	2016/17	2017/18

			Interest rate exposures
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%

Maturity structure of borrowing

Setting limits for the maturity structure of debt ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of maturing debt is not ending at a time when interest rates for refinancing the debt may be high.

Maturity Structure of fixed rate borrowing during 2015/16	Upper limit	Lower limit
Under 12 months	25%	0%
1 year - 2 years	40%	0%
2 years within 5 years	60%	0%
5 years within 10 years	80%	0%
10 years and above	100%	0%

Maturity Structure of variable rate borrowing during 2015/16	Upper limit	Lower limit
Under 12 months	25%	0%
1 year - 2 years	40%	0%
2 years within 5 years	60%	0%
5 years within 10 years	80%	0%
10 years and above	100%	0%

Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum percentage of total principal sums invested which can be held for over 365 days			
	2015/16	**2016/17**	**2017/18**
Principal sums invested > 364 days	85%	85%	85%