APPENDIX 2

Prudential Indicators

A. Capital Expenditure Plans

1. The Council's capital expenditure plans are the key driver of treasury management activity. Estimates of capital expenditure for the period 2016/17 to 2018/19 based on the Council's draft Capital Programme are summarised below and this forms the first of the prudential indicators. The revenue consequences of associated borrowing and any on-going maintenance costs are accommodated within the Council's revenue budgets.

2. Capital expenditure can be paid for immediately, by applying capital resources such as capital receipts, capital grants, external funding or revenue contributions, but if these resources are insufficient any residual expenditure will be covered by Prudential Borrowing and will add to the Council's borrowing need, or Capital Financing Requirement (CFR).

3. Estimates of resources such as capital receipts may be subject to uncertainty i.e. anticipated asset sales may be postponed or reduced due to changes in the property market or planning issues.

4. Elsewhere on the agenda the draft Capital Programme is recommended for approval. The table below summarises the proposed expenditure and how it will be financed. Any shortfall of financing results in a borrowing need.

Table 1:- Capital Expenditure and Financing

	2014/15 Actuals £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Expenditure					
General Fund	26,750.1	25,428.3	18,035.8	10,097.8	7,441.0
HRA	21,961.8	17,235.4	22,168.0	24,452.0	17,858.0
Total expenditure	**48,711.9**	**42,663.7**	**40,203.8**	**34,549.8**	**25,299.0**
Financed by:					
Developer Contributions	834.6	1,213.9	3,832.5	2,567.0	200.0
Capital Grants	1,759.7	4,697.9	501.0	501.0	501.0
Capital Receipts	17,762.9	224.6	9,365.0	2,229.0	2,350.0
Revenue	19,650.6	19,432.3	1,944.3	14,720.8	4,798.0
Major Repairs Reserve	8,704.2	6,858.0	20,105.0	4,760.0	6,157.0
Sub Total	48,711.9	32,426.7	35,747.8	24,777.8	14,006.0
Prudential Borrowing		**10,237.0**	**4,456.0**	**9,772.0**	**11,293.0**
Total funding	**48,711.9**	**42,663.7**	**40,203.8**	**34,549.8**	**25,299.0**

B. Capital Financing Requirement (CFR).

5. The CFR is the total 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 need to borrow.

6. The CFR also includes other long term liabilities (e.g. 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 2:- Capital Financing Requirement

	2014/15 Actuals £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
General Fund	1,257	11,232	15,415	18,320	22,878
HRA	199,384	199,384	199,384	205,896	212,150
	200,641	210,616	214,799	224,216	235,028
Movement in CFR	-19,910	9,975	4,183	9,417	10,812

C. Ratio of Financing Costs to the Net Revenue Stream

7. This indicator represents the estimate of the ratio of financing costs to the net revenue stream for HRA and General Fund.

Table 3:- Ratio of financing costs to net revenue stream

	2013/14 Revised Actuals £000's	2014/15 Estimate £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2016/17 Estimate £000's
General Fund	-7.2%	-8.7%	-9.0%	-9.4%	-9.1%
Housing Revenue Account	17.7%	16.9%	17.3%	18.4%	18.6%

D. Incremental Impact of Capital Investment Decisions on Council Tax and Rents

Council Tax

8. The estimate of the incremental impact of capital investment decisions on the Council Tax is shown below; it illustrates the impact of capital investment decisions on the Band D Council Tax.

9. The figures in Table 4 below have been calculated by looking at those schemes that are uncommitted in the current Capital Programme and looking at the impact they will have on Council Tax after taking into account capital receipts, grants and revenue contributions

10. The Council will not enter into any uncommitted capital scheme until the source of funding is confirmed, e.g. Capital receipts, grants, S106 or prudential borrowing. This will ensure we can avoid any unplanned revenue consequences as a result of capital expenditure.

Table 4:- Potential Impact of Capital Expenditure on Council Tax

	2014/15 Actuals £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Overall net impact on Council Tax Band D per week	0.43	0.40	0.28	0.16	0.11

Housing Rents

11. The estimated incremental impact of capital investment decisions on weekly housing rents is shown in Table 5 below. The figures have been calculated by looking at those schemes that are currently in the Capital Programme and deducting alternate funding resources.

12. The key driver for setting housing rents is legislation.

13. The expected expenditure on the HRA Capital Programme could have the following impact on Council rents if rents were not otherwise restricted:

Table 5:- Potential Impact of Capital Expenditure on Housing Rents

	2014/15 Actuals £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Overall net impact on Weekly Housing Rents	1.92	1.50	1.93	2.13	1.56

E. Authorised Limit for External Debt

14. This represents a limit beyond which external debt is prohibited. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 6:- Authorised Limit for external debt

	2014/15 Actuals £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
General Fund	4,000	14,232	18,415	21,320	25,878
HRA	241,188	241,188	241,188	241,188	241,188
Other Long Term Liabilities	0	0	0	0	0
Total	245,188	255,420	259,603	262,508	267,066

15. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The Council intends to utilise most of this headroom to fund the HRA Capital Programme, although it is considered prudent to withhold £10m of the borrowing headroom as a contingency for potential changes in capital costs and interest charges. These limits are:

Table 7: HRA Capital Financing Requirement Limit

HRA Debt Limit	2014/15 Actuals £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Total	242,199	242,199	242,199	242,199	242,199

F. Operational Boundary for External Debt

16. This is based on the expected maximum external debt during the course of the year, it is not a limit, and actual external debt can vary around this boundary for short times during the year.

Table 8:- Operational boundary for external debt

	2014/15 Actuals £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
General Fund	3,000	12,232	12,415	15,320	19,878
HRA	234,000	241,188	241,188	241,188	241,188
Other Long Term Liabilities	0	0	0	0	0
Total	237,000	253,420	253,603	256,508	261,066

G. Net Borrowing Compared to the Council's Capital Financing Requirement

17. Table 9 below shows the Council's net borrowing position compared to its Capital Financing Requirement. As can be seen, the figures show that the Council is currently borrowing below its financing requirement which indicates a need to borrow in the short to medium term. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This allows some flexibility for limited early borrowing for future years.

Table 9:- Net borrowing compared to CFR

	2014/15 Actuals £000's	2015/16 Estimate £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's
Gross Borrowing	199,423	198,528	198,528	198,528	198,528
Other Long Term Liabilities	0	0	0	0	0
Total Gross Debt 31 March	**199,423**	**198,528**	**198,528**	**198,528**	**198,528**
CFR	200,641	210,616	214,799	224,216	235,028
Net Borrowing v CFR	**1,218**	**12,088**	**16,271**	**25,688**	**36,500**

H. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Sector

18. The Council can confirm that it has complied with this code throughout 2015/16 and will continue to do so.

I. Upper Limit on Fixed and Variable Interest Rate Borrowing and Investments

19. The purpose of this and the following two prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. This indicator identifies the maximum limit for fixed interest rates based upon the debt position net of investments.

Table 10:- Upper limit on borrowing and investments

	2014/15 Actuals %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Upper limit on fixed rate borrowing	100	100	100	100	100
Upper limit on fixed rate investments	100	100	100	100	100
Upper limit on variable rate borrowing	100	100	100	100	100
Upper limit on variable rate investments	100	100	100	100	100

J. Upper and Lower Limit for the Maturity Structure of Borrowing

20. These are used to reduce the Council’s exposure to large fixed rate sums falling due for repayment at the same time.

Table 11:- Upper and lower limit on borrowing maturity

	2015/16 Estimate Upper %	2015/16 Estimate Lower %	2016/17 Estimate Upper %	2016/17 Estimate Lower %	2017/18 Estimate Upper %	2017/18 Estimate Lower %
< 12 months	30	0	30	0	30	0
12 months - 2 years	30	0	30	0	30	0
2 - 5 years	80	0	80	0	80	0
5 - 10years	100	0	100	0	100	0
10 years +	100	0	100	0	100	0

Table 12:- Upper limit for investments longer than 364 days

	2014/15 Actuals %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Upper limit for investments for periods longer than 364 days	25	25	25	25	25

21. The table above shows the upper limit for principle sums invested for periods longer than 364 days; this indicator is used to reduce the need for early sale of an investment, and is based on the availability of funds after each year end. This has been set at 25% due to the continuing uncertainty of the market and to reduce the risk posed by longer term investments.