Appendix 2

PRUDENTIAL INDICATORS FOR MTP 2017/18 to 2020/21

1. BACKGROUND

1.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

1.2. Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

1.3. The purpose of this report is to update and revise the indicators approved by Council last year contained within the proposed MTP for 2017/18 to 2020/21. The report describes the purpose of each of the indicators and the proposed values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place throughout the year and a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

2. CAPITAL EXPENDITURE INDICATORS

2.1. CAPITAL EXPENDITURE

This indicator is required to inform the Council of capital spending plans for the next four years. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

The estimates of gross capital expenditure to be incurred for the current and future years is summarised below:

Table 2.1.1 Capital Expenditure 2017/18-2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Estimates of capital expenditure	£000	**305,986**	82,680	124,909	69,553	46,860
EfW technical adjustment*	£000	**-159,691**	-	-	-	-
Estimates of capital expenditure	£000	**146,295**	82,680	124,909	69,553	46,860

*Actual expenditure is presented after a technical adjustment for the EfW plant as an asset under construction. As a result the estimate of capital expenditure is different to the Council approved capital programme which incorporates the EfW plant on the basis of when payment falls due. £36,057k (2013/14), £79,314k (2014/15) and £44,061 (2015/16) have previously been capitalised giving an overall total of £159,691m in respect of the EfW plant prior to 2016/17.

The 2016/17 estimates reflect the forecast gross capital expenditure against the revised budgets to the end of January 2017 including proposed slippage. The forecast outturn is for an anticipated £7.3m (2.3%) underspend on the revised capital expenditure budget for the year. This represents around £5m of slippage and £2.3m of other underspends which could be utilised to accelerate other projects.

The estimate of capital expenditure for 2017/18 to 2020/21 reflects the draft capital programme within the MTP excluding slippage.

Table 2.1.1 Capital Expenditure 2016/17-2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Estimates of capital expenditure	£000	254,726	90,585	65,484	48,216
EfW technical adjustment*	£000	-180,000	-	-	-
Estimates of capital expenditure	£000	74,726	90,585	65,484	48,216

*Actual expenditure and future year's budgets are presented after a technical adjustment for the EfW plant as an asset under construction. As a result the estimate of capital expenditure is different to the Council approved capital programme which incorporates the EfW plant on the basis of when payment falls due. It was estimated that the total of £180m would have been incurred prior to 1 April 2016; however due to a slight delay in the construction of the plant and transfer stations, only £159m was in fact completed by 31 March 2016.

The Approved estimate of capital expenditure for 2016/17 was been updated during the year for carry forwards as agreed by Cabinet and the Property Investment Programme as reported to Regulatory & Audit Committee on 9 November 2016.

The estimate of capital expenditure for 2017/18 to 2019/20 has now been updated to reflect the proposed new Capital Programme as part of the 2017/18 MTP process. The main change from the programme approved in Feb 2016 being an increase of £40m in the investment in Primary and Secondary School Places over 2017/18 to 2018/19 and a re-phasing to 2018/19.

The Capital programme is subject to approval by full Council on 16 February 2017.

2.2. CAPITAL FINANCING REQUIREMENT

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 5.3). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

Table 2.2.1 Capital Financing Requirement 2017/18 – 2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Estimates of capital financing requirement (CFR)	£000	**364,569**	359,424	355,980	354,326	351,672

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council.

During 2016/17 the revised estimate for 2016/17 was updated as follows:

- Final cost of the EfW plant was £181.479m; as a result the total Prudential borrowing has been increased to £131.479m
- Three new Commercial properties have been acquired during 2016/17 through prudential borrowing: Liscombe Park £1.672m, Knaves Beech £22.8m; Aylesbury Retail Park £16.2m.
- Update to the smaller projects to take account of slippage in forecast capital expenditure (funded from borrowing) and include new schemes within the programme such as the redevelopment of High Wycombe Library.
- Change to the MRP policy for pre 2008 debt to straight-line basis over 50 years.

The approved profile (table 2.2.2) below reflects the original estimate of prudential borrowing as follows:

- A total of £130m in respect of the Energy from Waste (EfW) Project;
- £2.1m in 2016/17, £2.1m in 2017/18, £2.0m in 2018/19 and £4.5m in 2019/20 in relation to a number of smaller projects including Orchard House, Aylesbury Library, Winslow Car Park and Business Centre; where the business case indicates a return on investment after taking into account borrowing costs.

Table 2.2.2 Capital Financing Requirement 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Estimates of capital financing requirement (CFR)	£000	319,777	310,565	301,549	297,047

AFFORDABILITY INDICATORS

2.3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Purpose of the Indicator

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Table 2.3.1 Ratio of Financing Cost to Net Revenue Stream 2017/18 – 2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Estimates of ratio of financing costs to net revenue stream	%	4.6%	4.9%	4.8%	4.5%	4.3%

The indicator reflects the change to the MRP policy agreed by Council on 26 November; the draft MTP and the forecast outturn on interest payable and interest receivable.

Table 2.3.2 Ratio of Financing Cost to Net Revenue Stream 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Estimates of ratio of financing costs to net revenue stream	%	5.7%	6.0%	5.6%	5.2%

The reduction in the ratio of financing costs for 2016/17 and 2017/18 is due primarily to the change in the MRP policy.

2.4. ESTIMATES OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

This is a key affordability indicator that demonstrates the incremental effect of planned capital expenditure and hence any increased or decreased borrowing, on Council Tax.

Table 2.4.1 Incremental impact of new Capital investment on Council Tax 2017/18 – 2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Estimates of the incremental impact of capital investment decisions on Council Tax	£	-£12.38	-£9.25	-£0.81	-£2.14	-£0.44
	%	-1.07%	-0.76%	-0.06%	-0.16%	0.03%

The revised estimate for 2016/17 has been increased due to the investment in new Commercial properties detailed above. This is anticipated to provide additional revenue income in 2016/17 with the full year effect in 2017/18.

Table 2.4.2 Incremental impact of new Capital investment on Council Tax 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Estimates of the incremental impact of capital investment decisions on Council Tax	£	-£8.75	-£8.06	-£0.43	-£2.26
	%	-0.75%	-0.67%	-0.03%	-0.17%

3. FINANCIAL PRUDENCE INDICATOR

3.1. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT ('CFR')

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy. The figures for 2016/17 onwards are based on estimates:

Table 3.1.1 Gross Debt and the CFR 2017/18 – 2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Gross Borrowing	£000	222,000	340,000	330,000	320,000	310,000
Capital Financing Requirement	£000	**364,569**	359,424	355,980	354,326	351,672

Completion of the EfW plant and investment in the Commercial properties has required additional borrowing during the year. The approved estimate assumed £40m medium term borrowing and £20m short term borrowing to support cash flow, plus £10m of current PWLB loans which will be repaid each year from 2016/17 to 2020/21. A further increase in gross borrowing is proposed for 2017/18 to allow greater headroom for the Council to invest in commercial properties. The authorised limit for 2018/19 onwards has been reduced to reflect the fact that it is anticipated that the Council will not need to replace debt repaid.

On 31 December, the Council had £52.5m of temporary loans in place. During the current financial year £11.7m of debt will be repaid relating to the PWLB and it is estimated that £70m temporary borrowing will be required as at 31 March 2017. The forecast external borrowing as at 31 March 2017 is £222m which includes £1.3m accrued interest.

Table 3.1.2 Gross Debt and the CFR 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Gross Borrowing	£000	215,000	205,000	195,000	185,000
Capital Financing Requirement	£000	319,777	310,565	301,549	297,047

3 TREASURY AND EXTERNAL DEBT INDICATORS

3.2. AUTHORISED LIMIT FOR EXTERNAL DEBT

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

Table 3.2.1 Authorised limit for external debt 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Authorised limit (for borrowing) *	£000	**275,000**	350,000	340,000	330,000	330,000
Authorised limit (for other long term liabilities) *	£000	**15,000**	9,000	10,000	10,000	10,000
Authorised limit (for total external debt) *	£000	**290,000**	359,000	350,000	340,000	340,000

* These limits can only be changed with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements. The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Director of Assurance will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit.

An increase in the authorised limit from £250m to £275m in 2016/17 was agreed by full Council to enable the Council to further invest in Commercial properties to provide additional revenue income in 2016/17 with the full year effect in 2017/18.

A further increase in the authorised limit is proposed for 2017/18 to £350m to allow greater headroom for the Council to invest in commercial properties. The authorised limit for 2018/19 onwards has been reduced to reflect the fact that it is anticipated that the Council will not need to replace debt repaid.

Table 3.2.2 Authorised limit for external debt 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Authorised limit (for borrowing) *	£000	250,000	240,000	230,000	230,000
Authorised limit (for other long term liabilities) *	£000	15,000	15,000	15,000	15,000
Authorised limit (for total external debt) *	£000	265,000	255,000	245,000	245,000

3.3. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Table 3.3.1 Operational Boundary for External Debt 2017/18 – 2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Operational boundary (for borrowing)	£000	**230,000**	320,000	310,000	300,000	300,000
Operational boundary (for other long term liabilities)	£000	**7,500**	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	**237,500**	327,500	317,500	307,500	307,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice document. It will be reviewed on an on-going basis, the operational boundary allows the Council to borrow up to invest in new assets which will generate an income stream in excess of any borrowing costs.

In May 2016 Council agreed an increase in the operational borrowing for external debt. Modelling the Council's cash balances at that time indicated that the Council needed to borrow £70m for the £180m plus £36m VAT bullet payment relating to the Energy from Waste plant. After about 5 weeks the Council was reimbursed the £36m VAT payment which reduced the external debt accordingly. The strategy was to take several temporary loans. The operational boundary has been increased for 2017/18 to reflect the strategy to invest in Commercial properties.

Table 3.3.2 Operational Boundary for External Debt 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Operational boundary (for borrowing)	£000	230,000	220,000	210,000	200,000
Operational boundary (for other long term liabilities)	£000	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	237,500	227,500	217,500	207,500

3.4. ACTUAL EXTERNAL DEBT

This is a factual indicator showing actual external debt for the previous financial year.
The actual external borrowing as at 31 March 2016 was £163.8m which includes £1.4m accrued interest. During the current financial year £11.7m of debt will be repaid to the PWLB and it is estimated that £70m temporary borrowing will be required as at 31 March 2017. The forecast external borrowing as at 31 March 2017 is £222m which includes £1.3m accrued interest.

5 TREASURY MANAGEMENT INDICATORS

The prudential code links with the existing CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicators consist of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

5.1 SECURITY AVERAGE CREDIT RATING

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

Table 5.1.1 Security Average Credit Rating 2017/18

Security Average Credit Rating	Target
Portfolio Average Credit Rating	A+ or above

For the purpose of this indicator, local authorities which are unrated are assumed to hold an AAA rating.

Table 5.1.2 Security Average Credit Rating 2016/17 approved by Council on 18 February 2016

Security Average Credit Rating	**Target**
Portfolio Average Credit Rating	A+ or above

5.2 HAS THE COUNCIL ADOPTED THE CIPFA TREASURY MANAGEMENT CODE?

The Council has adopted the Code. In line with the Code the Treasury Strategy for 2016/17 is reported to Regulatory and Audit Committee and Council.

Table 5.2.1 The CIPFA Treasury Management Code 2017/18 – 2020/21

Indicator	**Unit**	**Revised Estimate 2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes

Table 5.2.2 The CIPFA Treasury Management Code 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	**Unit**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes

5.3 UPPER LIMIT OF FIXED RATE BORROWING FOR THE 4 YEARS TO 2020/21

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

Table 5.3.1 Upper Limit of Fixed Rate Borrowing 2017/18 – 2020/21

Indicator	**Unit**	**Revised Estimate 2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Fixed interest rate exposure - upper limit *	£000	230,000	350,000	340,000	330,000	330,000

* Any breach of these limits will be reported to the full Council

Table 5.3.2 Upper Limit of Fixed Rate Borrowing 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Fixed interest rate exposure - upper limit *	£000	230,000	270,000	270,000	270,000	270,000

5.4 UPPER LIMIT OF VARIABLE RATE BORROWING FOR THE 4 YEARS TO 2020/21

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount will be:

Table 5.4.1 Upper Limit of Variable Rate Borrowing 2017/18 – 2020/21

Indicator	Unit	Revised Estimate 2016/17	2017/18	2018/19	2019/20	2020/21
Variable interest rate exposure - upper limit *	£000	140,000	225,000	160,000	170,000	160,000

* Any breach of these limits will be reported to the full Council

In May 2016 Arlingclose, the Council's treasury advisor, advised that with short-term interest rates much lower than long-term rates, it was likely to be more cost effective in the short-term to borrow short-term loans instead of long-term loans. Instruments that mature during the year are classed as variable, therefore an increase in the variable fixed rate of borrowing to £140,000 for 2016/17 was approved by County Council on 26 May 2016.

Table 5.4.4 Upper Limit of Variable Rate Borrowing 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Variable interest rate exposure - upper limit *	£000	100,000	95,000	82,000	90,000

5.5 MATURITY STRUCTURE OF FIXED RATE BORROWING

This Indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of the fixed borrowing will be:

Table 5.5.1 Maturity Structure of Fixed Rate Borrowing to 2017/18

Maturity Structure of Fixed Rate Borrowing	**Revised Estimate 2016/17**		**2017/18**	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	45%	0%	80%	0%
12 months and within 24 months	50%	0%	50%	0%
24 months and within 5 years	55%	0%	55%	0%
5 years and within 10 years	60%	0%	80%	0%
10 years and above	100%	20%	100%	20%

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Table 5.5.2 Maturity Structure of Fixed Rate Borrowing for 2016/17 approved by Council on 18 February 2016

Maturity Structure of Fixed Rate Borrowing	**2016/17**	
Period	Upper Limit	Lower Limit
Under 12 months	45%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	55%	0%
5 years and within 10 years	60%	0%
10 years and above	100%	20%

5.6 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 5.6.1 Total Principal Sums Invested for Periods Longer than 364 Days 2017/18 to 2020/21

Indicator	**Unit**	**Revised Estimate 2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Total principal sums invested for periods longer than 364 days	£0m	£10m	£10m	£20m	£20m	£20m

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £10m in 2017/18 and £20m in 2018/19 to 2020/21. Cash balances are anticipated to be low due to financing the EfW project.

Table 5.6.2 Total Principal Sums Invested for Periods Longer than 364 Days 2016/17 to 2019/20 approved by Council on 18 February 2016

Indicator	Unit	2016/17	2017/18	2018/19	2019/20
Total principal sums invested for periods longer than 364 days	£0m	£25m	£25m	£25m	£25m

6 CONCLUSION

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.