Appendix 2

PRUDENTIAL INDICATORS FOR MTP 2016/17 to 2019/20

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 2016/17 to 2019/20. 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 2016/17-2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Estimates of capital expenditure	£000	71,294	70,746	254,526	88,585	65,484	48,216
EfW technical adjustment*	£000	79,618	64,325	-180,000	-	-	-
Estimates of capital expenditure	£000	150,912	135,071	74,526	88,585	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. £36,057k has previously been reported in 2013/14 giving an overall total estimated expenditure of £180m.

The 2015/16 estimates reflect the forecast gross capital expenditure against the revised budgets to the end of December 2015 including proposed slippage.

The estimate of capital expenditure for 2016/17 to 2019/20 reflects the capital programme within the MTP excluding slippage.

Table 2.1.2 Capital Expenditure 2015/16-2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Estimates of capital expenditure	£000	135,934	88,491	65,654	233,053	30,100

- Actual expenditure in 2014/15 was £17.2m less than the revised estimate as at December 2014. The main variances were reported to members in the outturn report (June 2015) and related £4.7m due to delays in the Day Care scheme, planning delays in respect of Misbourne School and Temporary Classrooms and

£11.3m unreleased due to schemes not being ready to progress through the Gateway process. Some of these items were carried forward and added to the planned programme for 2015/16.

- The presentation of the programme was altered (mid-year report) to show the technical adjustment for the EfW plant. This line reconciles the reporting of capital expenditure on an accruals basis (for accounting purposes) to the presentation on a cash basis within the Capital programme.

- The capital programme for 2016/17 onwards has been updated to reflect the latest agreed capital programme within the MTP. The capital programme is included within Agenda item x.

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Estimates of capital financing requirement (CFR)	£000	319,334	325,826	319,777	310,565	301,549	297,047

Table 2.2.2 Capital Financing Requirement 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Estimates of capital financing requirement (CFR)	£000	247,801	317,161	328,189	317,449	307,066

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.

The 2016/17 – 2019/20 profile above reflects prudential borrowing as follows:

- A total of £130m by 2015/16, 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.

The capital financing requirement has been updated from the 2015/16 – 2017/18 profile due to:

- Certified expenditure for the EfW plant being ahead of expectation as at 31 March 2015 by £2.175m.
- Expected Prudential borrowing for 2015/16 is consequently £2.175m less in respect of the EfW plant. In addition planned borrowing of £2.3m in 2015/16 is now not anticipated to be required as forecasts currently indicate that the capital programme for 2015/16 can be financed entirely from the alternative sources listed above.
- Assumptions around the MRP (the set-aside required for the repayment of debt) have been updated for 2016/17 onwards in respect to the EfW Plant due to the operational date of the plant being delayed to 2016/17 and an adjustment to the expected useful life. The impact in 2016/17 is an increase to the CFR of £3.4m.
- New borrowing has been added to the profile, as detailed above.

The profile originally included borrowing as the accountable body on behalf of the LEP to support Transportation projects. This requirement is being reviewed; as a result no borrowing for the LEP is currently assumed.

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Estimates of ratio of financing costs to net revenue stream	%	6.0%	5.4%	5.8%	6.0%	5.6%	5.3%

Table 2.3.2 Ratio of Financing Cost to Net Revenue Stream 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Estimates of ratio of financing costs to net revenue stream	%	5.9%	6.0%	5.5%	6.5%	6.3%

The reduction in the ratio of financing costs for 2016/17 and 2017/18 is due primarily to the update to MRP forecast, in particular due to the operational date of the EfW plant being delayed and adjustment to the expected useful life.

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Estimates of the incremental impact of capital investment decisions on Council Tax	£	-£1.19	-£1.14	-£8.75	-£8.06	-£0.43	-£2.26
	%	-0.11%	-0.10%	-0.75%	-0.67%	-0.03%	-0.17%

The delivery of a number of projects within the capital programme including the replacement of Street Lamps with more efficient equipment, solar panel programme and development of a new Car park at Old County Offices will result in revenue income and savings. In addition a net saving is forecast in relation to the Energy from Waste project.

Table 2.4.2 Incremental impact of new Capital investment on Council Tax 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Estimates of the incremental impact of capital investment decisions on Council Tax	£ per Band D	-£0.09	-£1.19	-£1.67	-£6.40	-£12.48
	%	-0.01%	-0.11%	-0.15%	-0.56%	-1.08%

The main variances in the profile from 2015/16 – 2017/18 are due to:

- The incremental saving on Street lighting was revised downwards by £140k in 2015/16.
- Savings in respect of the development of the new Car Park at Old County Offices have been added in 2016/17.
- The incremental impact of the EfW plant savings have been revised down in 2017/18; plus the effect of increases to assumptions around tax base and band D as set out in the MTP.

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Gross Borrowing	£000	190,714	165,000	215,000	205,000	195,000	185,000
Capital Financing Requirement	£000	319,334	325,826	319,777	310,565	301,549	297,047

The Council is committed to building an EfW plant. This may require additional borrowing during 2016/17, although in practice much of this will be financed through a combination of earmarked reserves and current cash investments. The gross borrowing indicator assumes £40m medium term borrowing and £20m short term borrowing which may be required from time to time to support cash flow. £10m of current PWLB loans will be repaid each year from 2016/17 to 2019/20.

Table 3.1.2 Gross Debt and the CFR 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Gross Borrowing	£000	187,649	195,000	220,000	225,000	225,000
Capital Financing Requirement	£000	247,801	317,161	328,189	317,449	307,066

The main variances in the profile of gross borrowing from 2015/16 – 2017/18 are due to:

- The indicator assumed borrowing in advance of £15m in 2015/16 and £15m in 2016/17 in relation to the EfW plant. No borrowing in advance has currently been taken out due to the continuing access to preferential rates within the PWLB and money markets. The Council has continued to repay existing PWLB loans as they fall due.

- The indicator also assumed £16m in 2014/15 and £20m in 2015/16 of borrowing on behalf of the Buckinghamshire Thames Valley LEP for the Aylesbury Eastern Link Road. This requirement is being reviewed; as a result no borrowing for the LEP is currently assumed.

- Temporary borrowing of £15m was undertaken around 31 March 2015 due to cashflow requirements.

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	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Authorised limit (for borrowing) *	£000	250,000	270,000	250,000	240,000	230,000	230,000
Authorised limit (for other long term liabilities) *	£000	150,000	200,000	15,000	15,000	15,000	15,000
Authorised limit (for total external debt) *	£000	400,000	470,000	265,000	255,000	245,000	245,000

* 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.

Table 3.2.1 Authorised limit for external debt 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Authorised limit (for borrowing) *	£000	250,000	250,000	270,000	320,000	320,000
Authorised limit (for other long term liabilities) *	£000	50,000	150,000	200,000	15,000	15,000
Authorised limit (for total external debt) *	£000	300,000	400,000	470,000	335,000	335,000

The authorised limit for 2016/17 onwards has been reduced to reflect the fact that the Council has not needed to replace debt repaid in 2014/15 and 2015/16, current plans for financing of the EfW plant and the removal of the need for supported borrowing for LEP.

Accounting for the Energy from Waste Plant

Construction commenced on site on 11 September 2013. Technical accounting rules require the Council to recognise an asset under construction and a corresponding PFI-equivalent liability for the work certified to date and forecast under the project. The liability is included in the 'other long-term liabilities' line.

Actual total liabilities are shown in Indicator 3.3 Operational Boundary for External Debt.

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.

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Operational boundary (for borrowing)	£000	210,000	230,000	230,000	220,000	210,000	200,000
Operational boundary (for other long term liabilities)	£000	130,000	190,000	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	340,000	420,000	237,500	227,500	217,500	207,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice documents. It will be reviewed on an on-going basis, the operational boundary allows the Council to borrow up to £20m to invest in new assets which will generate an income stream in excess of any borrowing costs.

Table 3.3.1 Operational Boundary for External Debt 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Operational boundary (for borrowing)	£000	187,649	210,000	230,000	270,000	270,000
Operational boundary (for other long term liabilities)	£000	42,237	130,000	140,000	6,500	6,500
Operational boundary (for total external debt)	£000	229,886	340,000	370,000	276,500	276,500

The operational boundary for 2016/17 onwards has been reduced to reflect current plans for financing of the EfW plant and the removal of the need for supported borrowing for LEP.

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 2015 was £190.7m which includes £1.5m accrued interest and £15m of temporary loans. During the current financial year £11.7m of debt will be repaid to the PWLB. The forecast external borrowing as at 31 March 2016 is £164m which includes £1.5m accrued interest.

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 2016/17

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 2015/16

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	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	Yes	Yes

Table 5.2.2 The CIPFA Treasury Management Code 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes

5.3 UPPER LIMIT OF FIXED RATE BORROWING FOR THE 4 YEARS TO 2019/20

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Fixed interest rate exposure - upper limit *	£000	96,196	230,000	270,000	270,000	270,000	270,000

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

Table 5.3.2 Upper Limit of Fixed Rate Borrowing 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Fixed interest rate exposure - upper limit *	£000	133,928	210,000	230,000	270,000	270,000

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

5.4 UPPER LIMIT OF VARIABLE RATE BORROWING FOR THE 4 YEARS TO 2019/20

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 2016/17 – 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Variable interest rate exposure - upper limit *	£000	89,732	80,000	100,000	95,000	82,000	90,000

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

Table 5.4.2 Upper Limit of Variable Rate Borrowing 2015/16 – 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Variable interest rate exposure - upper limit *	£000	53,732	110,000	80,000	80,000	95,000

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

This indicator has increased in 2016/17 due to the potential borrowing arrangements for the EfW plant.

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 2016/17

Maturity Structure of Fixed Rate Borrowing	**Actual 2014/15**		**Revised Estimate 2015/16**		**2016/17**	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	40%	0%	45%	0%	45%	0%
12 months and within 24 months	32%	0%	45%	0%	50%	0%
24 months and within 5 years	54%	0%	55%	0%	55%	0%
5 years and within 10 years	53%	0%	55%	0%	60%	0%
10 years and above	60%	0%	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 to 2017/18

Maturity Structure of Fixed Rate Borrowing	**Actual 2013/14**		**Revised Estimate 2014/15**		**2015/16**		**2016/17**		**2017/18**	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	29%	0%	50%	0%	45%	0%	45%	0%	55%	0%
12 months and within 24 months	40%	0%	35%	0%	45%	0%	50%	0%	45%	0%
24 months and within 5 years	52%	0%	55%	0%	55%	0%	55%	0%	55%	0%
5 years and within 10 years	58%	0%	55%	0%	55%	0%	60%	0%	60%	0%
10 years and above	60%	0%	100%	20%	100%	20%	100%	20%	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 2016/17 to 2019/20

Indicator	Unit	Actual 2014/15	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Total principal sums invested for periods longer than 364 days	£0m	£19.5m	£50m	£25m	£25m	£25m	£25m

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £50m in 2015/16 and £25m in 2016/17 to 2019/20. Cash balances are anticipated to be lower from 2016/17 onwards due to financing the EfW project.

Table 5.6.2 Total Principal Sums Invested for Periods Longer than 364 Days 2015/16 to 2017/18

Indicator	Unit	Actual 2013/14	Revised Estimate 2014/15	2015/16	2016/17	2017/18
Total principal sums invested for periods longer than 364 days	£0m	£10m	£75m	£50m	£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.