Appendix 1

PRUDENTIAL INDICATORS ESTIMATES 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 provide an update on the indicators approved by Council earlier this year, and to estimate the position for the period 2016/17 to 2019/20. The report describes the purpose of each of the indicators and the values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place throughout the year, 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 three 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	Revised Estimate 2016/17 as at 30 Sept 2016	2016/17	2017/18	2018/19	2019/20
Revised Capital Programme	£000	**309,562**	311,453	90,585	65,484	48,216
EfW technical adjustment*	£000	**-159,691**	-159,691	-	-	-
Estimates of capital expenditure	£000	**149,871**	151,762	90,585	65,484	48,216

*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.

Table 2.1.2 Capital Expenditure 2016/17-2019/20 approved by Council on 18 February 2016

Indicator	Unit	Actual 2015/16	2016/17	2017/18	2018/19	2019/20
Approved Capital Programme	£000	**82,139**	254,726	90,585	65,484	48,216
EfW technical adjustment*	£000	**44,061**	-180,000	-	-	-
Estimates of capital expenditure	£000	**126,155**	74,726	90,585	65,484	48,216

The Approved estimate of capital expenditure for 2016/17 has been updated to reflect the revised budget (inclusive of carry forwards) as reported to Cabinet in June 2016 and the Property Investment Programme agreed by Cabinet on 12 September 2016. The forecast outturn shows an anticipated £1.9m (0.7%) underspend on the revised capital expenditure budget for the year. The main area of concern is forecasted overspends on property maintenance for both schools and non-schools of £2.514m. This is off-set by around £3m of slippage which could be utilised to accelerate other projects.

The estimate of capital expenditure for 2017/18 to 2019/20 does not reflect any proposed changes as part of the 2016/17 MTP process.

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	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Estimates of capital financing requirement (CFR)	£000	**365,408**	319,777	310,565	301,549	297,047

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 approved profile above reflects 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.

The revised estimate for 2016/17 has been 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.
- The CFR has been updated for the proposed change to the MRP policy as detailed at Appendix 2.

The impact of applying these changes to future years CFR is estimated as follows:

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Revised estimate		
			2017/18	2018/19	2019/20
Estimates of capital financing requirement (CFR)	£000	**365,408**	359,506	353,420	351,580

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 Costs to Net Revenue Stream 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Estimates of ratio of financing costs to net revenue stream	%	**4.6%**	5.7%	6.0%	5.6%	5.2%

The revised estimate has been updated for the proposed change to the MRP policy as detailed at Appendix 2; and for the forecast outturn on interest payable and interest receivable as at Q2. The update to MRP has not yet been applied to the approved estimates for future years.

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 Estimate of incremental impact of new Capital investment on Council Tax 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Estimates of the incremental impact of capital investment decisions on Council Tax	£ per Band D Equivalent	**-£12.57**	-£8.75	-£8.06	-£0.43	-£2.26
	%	**-1.08%**	-0.75%	-0.67%	-0.03%	-0.17%

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. The update for the new Commercial properties has not yet been applied to the approved estimates for future years.

3. FINANCIAL PRUDENCE INDICATOR

3.1. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

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 2015/16 onwards are based on estimates:

Table 3.1.1 Gross Debt and the CFR 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Gross Borrowing	£000	**222,000**	215,000	205,000	195,000	185,000
Capital Financing Requirement	£000	**365,509**	319,777	310,565	301,549	297,047

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 2019/20.

On 30 September, the Council had £40m 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.

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 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Authorised limit (for borrowing) *	£000	275,000	250,000	240,000	230,000	230,000
Authorised limit (for other long term liabilities) *	£000	15,000	15,000	15,000	15,000	15,000
Authorised limit (for total external debt) *	£000	265,000	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. 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. It is proposed that a change to the Prudential Indicator 3.2 from £250m to £275m in 2016/17 is taken to full Council for approval. This will 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.

Table 3.2.2 Authorised limit for external debt 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
Authorised limit (for borrowing) *	£000	270,000	250,000	240,000	230,000	230,000
Authorised limit (for other long term liabilities) *	£000	200,000	15,000	15,000	15,000	15,000
Authorised limit (for total external debt) *	£000	470,000	265,000	255,000	245,000	245,000

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

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	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Operational boundary (for borrowing)	£000	**230,000**	250,000	220,000	210,000	200,000
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**	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 document. 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.

On 26 May 2016, the operational boundary for 2016/17 was increased to facilitate paying the £180m plus £36m VAT bullet payment relating to the Energy from Waste plant. Arlingclose advised that the Council will need to borrow £70m initially. The strategy is to take several temporary loans.

Table 3.3.2 Operational Boundary for External Debt 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
Operational boundary (for borrowing)	£000	230,000	230,000	220,000	210,000	200,000
Operational boundary (for other long term liabilities)	£000	190,000	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	420,000	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 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.

4. TREASURY MANAGEMENT INDICATORS

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

The Treasury Management indicator consists 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.

4.1 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.

Security Average Credit Rating	Actual / Target
Portfolio Average Credit Rating	AA- / A+ or above

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

4.2 HAS THE COUNCIL ADOPTED THE CIPFA TREASURY MANAGEMENT CODE?

The Council has adopted the Code. In line with the Code the Treasury Strategy, the mid year review and the annual review are reported to Cabinet and Council.

Indicator	Unit	Revised Estimate 2016/17 as at 30 September 2016	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

4.3 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:

Indicator	Unit	Revised Estimate 2016/17 as at 30 September 2016	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

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

4.4 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 of the net principal will be:

Table 4.4.1 Upper Limit of Variable Rate Borrowing 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 September 2016	2016/17	2017/18	2018/19	2019/20
Variable interest rate exposure - upper limit *	£000	140,000	140,000	95,000	82,000	90,000

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

Arlingclose, the Council's treasury advisor advised that with short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to borrow short-term loans instead. Instruments that mature during the year are classed as variable, therefore County Council agreed an increase in the variable fixed rate of borrowing at its meeting on 26 May 2016.

Table 4.4.2 Upper Limit of Variable 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
Variable interest rate exposure - upper limit *	£000	80,000	100,000	95,000	82,000	90,000

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

4.5 MATURITY STRUCTURE OF FIXED RATE BORROWING FOR 2016/17

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:

Maturity Structure of Fixed Rate Borrowing	**Revised Estimate 2016/17 as at 30 September 2016**		**2016/17**	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	45%	0%	45%	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%	60%	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.

4.6 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.

Indicator	**Unit**	**Revised Estimate 2016/17 as at 30 September 2016**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Total principal sums invested for periods longer than 364 days	£0m	£25m	£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 £25m in 2016/17 to 2019/20. Cash balances are anticipated to be low from 2016/17 onwards due to financing the EfW project.

5 <u>CONCLUSION</u>

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.