

# Finance and Resources Committee

10.00am, Thursday 26 January 2023

## Capital Monitoring 2022/23 – Month Five Position – referral from the Governance, Risk and Best Value Committee

Executive/routine	Routine
Wards	
Council Commitments	

### 1. For Decision/Action

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- 1.1 The Governance, Risk and Best Value Committee has referred the Capital Monitoring 2022/23 – Month Five Position report to the Finance and Resources Committee for information.

**Richard Carr**  
Interim Executive Director of Corporate Services

Contact: Emily Traynor, Assistant Committee Officer  
Legal and Assurance Division, Corporate Services  
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# Referral Report

## Capital Monitoring 2022/23 – Month Five Position

### 2. Terms of Referral

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- 2.1 The Finance and Resources Committee considered the Month Five Capital Monitoring report at its meeting on 10 November 2022 and referred it to the Governance, Risk and Best Value Committee.
- 2.2 The Governance, Risk and Best Value Committee considered the report on 22 November 2022. Recommendation 1.3 of the report asked the Finance and Resources Committee to “note it has been agreed that the Finance and Resources Committee has oversight for and approval of the whole Capital Investment Programme.”
- 2.3 The GRBV Committee noted while the Finance and Resources Committee has an oversight role of the Capital Investment Programme, approval of the programme is a matter reserved to Council. The Governance, Risk and Best Value Committee agreed to refer the report back to the Finance and Resources Committee to highlight this for information.

### 3. Background Reading/ External References

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- 3.1 Minute of the Governance, Risk and Best Value Committee – 22 November 2022
- 3.2 [Governance, Risk and Best Value Committee – 22 November 2022 Webcast](#)

### 4. Appendices

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Appendix 1 – Capital Monitoring 2022/23 – Month Five Position – referral from the Finance and Resources Committee

# Governance, Risk and Best Value Committee

10.00am, Tuesday 22 November 2022

## Capital Monitoring 2022/23 – Month Five Position – referral from the Finance and Resources Committee

Executive/routine Wards Council Commitments	Executive All
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### 1. For Decision/Action

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- 1.1 The Finance and Resources Committee has referred a report on the Capital Monitoring 2022/23 – Month Five Position to the Governance, Risk and Best Value Committee as part of its work programme.

**Richard Carr**  
Interim Executive Director of Corporate Services

Contact: Taylor Ward, Assistant Committee Officer  
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# Referral Report

## Capital Monitoring 2022/23 – Month Five Position – referral from the Finance and Resources Committee

### 2. Terms of Referral

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- 2.1 On 10 November 2022, the Finance and Resources Committee considered the Capital Monitoring 2022/23 – Month Five Position report. The report provided capital expenditure and funding position at month five, full-year outturn projections for the 2022/23 financial year and provided explanations for key variances.
- 2.2 The Finance and Resources Committee agreed:
  - 2.2.1 To note the capital monitoring position for the General Fund and Housing Revenue Account at month five of the 2022/23 financial year.
  - 2.2.2 To note the Prudential Indicators in appendix 3 to the report.
  - 2.2.3 To note that it had been agreed that the Finance and Resources Committee had oversight for and approval of the whole Capital Investment Programme.
  - 2.2.4 To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

### 3. Background Reading

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- 3.1 [Finance and Resources Committee – 10 November 2022 - Webcast](#)
- 3.2 Minute of the Finance and Resources Committee – 10 November 2022

### 4. Appendices

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- 4.1 Appendix 1 – report by the Interim Executive Director of Corporate Services

# Finance and Resources Committee

10.00am, Thursday, 10 November 2022

## Capital Monitoring 2022/23 - Month Five Position

Executive/routine Wards Council Commitments	Executive All
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### 1. Recommendations

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- 1.1 To note the capital monitoring position for the General Fund and Housing Revenue Account (HRA) at month five of the 2022/23 financial year;
- 1.2 To note the Prudential Indicators in appendix 3.
- 1.3 To note that it has been agreed that the Finance and Resources Committee has oversight for and approval of the whole Capital Investment Programme; and
- 1.4 To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

#### Richard Carr

Interim Executive Director of Corporate Services

Contact: Matt Jones, Senior Accountant,

Finance and Procurement, Corporate Services Directorate

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## Capital Monitoring 2022/23 - Month Five Position

### 2. Executive Summary

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- 2.1 The report provides the capital expenditure and funding position as at month five and full-year outturn projections for the 2022/23 financial year, providing explanations for key variances.
- 2.2 At month five, the General Fund is projecting capital expenditure of £225.999m and capital income of £114.560m, resulting in a net requirement of £111.439m in loans fund advances. This is £2.809m lower than the revised budget update provided in month three due to updated cashflows across the programme.
- 2.3 At month five, the Housing Revenue Account (HRA) is projecting capital expenditure of £118.108m and capital income of £38.992m, resulting in a net requirement of £79.116m in loans fund advances.
- 2.4 An additional report is brought to the Finance and Resources Committee on this agenda assessing the significant financial pressure faced by the capital programme due to by current market conditions. The impact from factors such as COVID-19 and Brexit has been compounded by the Ukraine war and the cost-of-living crisis, resulting in very significant increases in costs across all capital projects.

### 3. Background

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- 3.1 The Sustainable Capital Budget Strategy 2022-2032 was approved by Council on 24th February 2022. This report detailed priorities for council capital investment of £1,459.874m, in alignment with the Council Business Plan, over the medium to long-term and set out a plan on how they could be funded.
- 3.2 The Capital Strategy - Annual Report was approved by Council on 17th March 2022. This report sets out the proposed capital strategy, which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the infrastructure and provision of services for the benefit of Edinburgh communities and citizens.
- 3.3 The month three capital monitoring position and the revised 2022/23 capital budget strategy position was reported to Finance and Resources Committee on 8th September 2022. This report incorporated outturn slippage from 2021/22 and rolled forward the capital investment programme for the period 2022-2032 to create the

revised capital budget. In creating the revised budget, realignments were made between financial years to reflect the most up to date cash flow projections available. The budget was also adjusted to reflect funding received since the Council set its budget in February.

## 4. Main report

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### Capital Monitoring 2022/23 – Month Five Position

#### General Fund Capital

- 4.1 At month five, general fund expenditure is projected to be £225.999m, compared against a budget of £228.988m, resulting in projected capital expenditure slippage of £2.989m. Grants and other capital income are forecast to be £114.560m with the remaining expenditure being funded by loans fund advances of £111.439m. This is £2.809m lower than the revised budget update provided in month three reflecting updated cashflows received across the programme. A breakdown by directorate is provided in Appendix 1, with additional commentary provided in sections 4.2 to 4.7.
- 4.2 Within Education and Children's Services, there has been capital expenditure of £19.490m as at month five. Expenditure relates primarily to Early Years projects, Boroughmuir High School, Trinity Academy and Wester Hailes Education Centre. There is also now forecast slippage of £12.526m in the year, which relates predominantly to Rising School Rolls. The Learning Estate strategy is experiencing significant financial pressure due to current market conditions. The impact from factors such as COVID-19 and Brexit has been compounded by the Ukraine war and the cost-of-living crisis, resulting in very significant increases in costs.
- 4.3 Within Place, there has been capital expenditure of £30.609m as at month five. Expenditure relates primarily to North Bridge £5.652m, Carriageways and Footways £6,161m, City Centre West East Link (CCWEL) Active Travel project £2.259m and the spending of the Development Funding Grant £3.669m. The projected outturn variance of £3.969m for the year primarily relates to;
- Housing and Regeneration slippage of £2.143m due to construction industry materials and labour shortages affecting the Granton Station Town Centre and Powderhall Stables programmes;
  - Depot Review slippage of £1.859m and Roads and Footways slippage of £1.008m both due to construction delays for the reasons noted above; and
  - North Bridge budget acceleration of £1.203m in line with latest forecasts.
- 4.4 Within Place – Trams to Newhaven, the project is forecasting in line with budget and is expected to complete on time in Spring 2023, within the approved budget of £207.3m.
- 4.5 Within Place - Lending there has been capital expenditure of £3.096m as at month five for completed units which have transferred to Edinburgh Living LLP.

- 4.6 Within Asset Management Works Programme, there has been capital expenditure of £4.143m as at month five across various projects, with outturn slippage of £8.973m against a budget of £22.102m. This is due to delays to the Enerphit programme £4.275m and general slippage £4.698m due to the shared experience of shortages in materials and labour in the construction industry.
- 4.7 An additional report is brought to the Finance and Resources Committee on this agenda assessing the significant financial pressure faced by the capital programme due to current market conditions. The impact from factors such as COVID-19 and Brexit has been compounded by the Ukraine war and the cost-of-living crisis, resulting in very significant increases in costs across all capital projects.

### **Housing Revenue Account (HRA) Capital**

- 4.8 The month five monitoring shows HRA capital expenditure of £28.535m for the financial year to date across various programmes and workstreams relating to the Council housebuilding programme and improvements to existing council homes and estates, with forecast capital expenditure slippage of £0.647m in the year. A breakdown by programme is provided in Appendix 2, with additional commentary provided in sections 4.9 to 4.13.
- 4.9 The forecast capital expenditure outturn on the Council Housebuilding Programme is acceleration of £1.383m which is primarily due to the rephasing of Western Villages development stages.
- 4.10 The forecast capital expenditure outturn on the Land element of the Council Housebuilding Programme is in line with budget, with the purchase of Liberton Hospital expected to complete within the year.
- 4.11 The forecast capital expenditure outturn against Improvements to Council Homes and Estates is slippage of £1.989m primarily due to supply chain disruption, including shortages of materials and contractor availability.
- 4.12 Previously, delays were reported in the Improvements to Council Homes and Estates programme because of the refusal of tenants to allow access to properties because of Covid concerns. Although this remains to some extent, the impact on the programme is much reduced.
- 4.13 The month five monitoring shows HRA capital income of £6.794m for the financial year so far, primarily from capital receipts from sales to Edinburgh Living LLP and additional disposals through the Acquisitions and Disposals Programme. The projected Capital income is £38.992m, which is £2.567m more than the revised budget, reflecting these additional disposals. The amount to be funded through the Loans Fund Advance is projected to be £79.116m, a reduction of £3.214m in line with overall HRA programme slippage and the additional income.



## 5. Next Steps

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- 5.1 This report will be referred to Governance, Risk and Best Value Committee to consider as part of its programme of work.
- 5.2 Finance staff will continue work with project and programme managers to monitor capital budgets.
- 5.3 Further reports will be presented to Finance and Resource Committee at month 8 and month 12 showing the position against the revised 2022/23 capital budget.

## 6. Financial impact

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- 6.1 The 2022/23 General Fund projected outturn outlines loans fund advances of £111.439m. The overall loan charges associated with this over a 30-year period would be a principal amount of £111.439m, interest and expenses of £85.291m, resulting in a total cost of £196.731m based on a loans fund interest rate of 4.00%. The average annual cost would be £6.558m for 30 years.
- 6.2 The 2022/23 HRA projected outturn outlines loans fund advances of £79.116m. The overall loans charges associated with this over a 30-year period would be a principal amount of £79.116m, interest of £64.855m, resulting in a total cost of £143.971m based on a loans fund rate of 4.25%. The average annual cost would be £4.799m for 30 years.
- 6.3 Borrowing required is carried out in line with the Council's approved Treasury Management Strategy.
- 6.4 The loan charge costs outlined above will be met from the general fund and HRA revenue budgets for loan charges.

## 7. Stakeholder/Community Impact

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- 7.1 Consultation on the capital budget was undertaken as part of the Council's budget setting process.
- 7.2 The stakeholder and community impact of individual projects within the Council's capital programme is considered as part of the business cases for those projects.

## 8. Background reading/external references

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- 8.1 [Sustainable Capital Strategy 2022-32 – Annual Report](#), Finance and Resources Committee, 3 March 2022
- 8.2 [2022-32 Sustainable Capital Budget Strategy – Outturn 2021/22 and Revised Budget 2022/23](#), Finance and Resources Committee, 8 September 2022

## **9. Appendices**

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- 9.1 Appendix 1 – 2022/23 Capital Monitoring Month Five – General Fund
- 9.2 Appendix 2 – 2022/23 Capital Monitoring Month Five – HRA

## Appendix 1 - 2022/23 Capital Monitoring

### General Fund Summary

#### Period 5

Expenditure	Approved Budget	Adjustments	Revised Budget	Actual to Date	Projected Outturn	Projected Outturn Variance	
	£000	£000	£000	£000	£000	£000	%
Education and Children's Services	33,040	15,722	48,762	19,490	36,236	12,526	25.69%
Place	104,983	(1,454)	103,529	30,609	99,560	3,969	3.83%
Place - Lending	16,972	3,057	20,029	3,096	20,029	-	0.00%
Place - Tram York Place to Newhaven	39,503	15,197	54,700	21,733	55,238	(538)	-0.98%
Place - Asset Management Works	29,425	(7,323)	22,102	4,143	13,129	8,973	40.60%
Corporate Services	807	469	1,276	228	1,524	(247)	-19.39%
Edinburgh Health and Social Care Partnership	-	284	284	160	284	-	0.00%
Contingency	-	-	-	-	-	-	0.00%
Slippage Assumption	(21,694)	-	(21,694)	-	-	(21,694)	100.00%
<b>Total Gross Expenditure</b>	<b>203,036</b>	<b>25,952</b>	<b>228,988</b>	<b>79,459</b>	<b>225,999</b>	<b>2,989</b>	<b>1.31%</b>
<b>Funding</b>	<b>Approved Budget</b>	<b>Adjustments</b>	<b>Revised Budget</b>	<b>Actual to Date</b>	<b>Projected Outturn</b>	<b>Projected Outturn Variance</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
<i>Capital Receipts</i>							
General Asset Sales	3,000	16,391	19,391	946	19,391	-	0.00%
Ringfenced Asset Sales	-	-	-	122	122	122	N/A
Capital from Current Revenue	-	2,670	2,670	1,170	2,670	-	0.00%
Less Fees Relating to Receipts	-	-	-	-	-	-	N/A
Less Fees Relating to General Receipts	-	-	-	-	-	-	N/A
<b>Total Capital Receipts from Asset Sales</b>	<b>3,000</b>	<b>19,061</b>	<b>22,061</b>	<b>2,238</b>	<b>22,183</b>	<b>122</b>	<b>0.55%</b>
<i>Drawdown from/ (to) Capital Fund</i>	-	-	-	-	-	-	N/A
<i>Developer Contributions</i>							
Developers Contributions Transferred to Investments	-	1,133	1,133	7,907	-	(1,133)	0.00%
<b>Total Developer Contributions</b>	<b>-</b>	<b>1,133</b>	<b>1,133</b>	<b>7,907</b>	<b>-</b>	<b>(1,133)</b>	<b>N/A</b>
<b>Total Capital Receipts and Contributions</b>	<b>3,000</b>	<b>20,194</b>	<b>23,194</b>	<b>10,144</b>	<b>22,183</b>	<b>(1,011)</b>	<b>-4.36%</b>
<i>Grants</i>							
Scottish Government General Capital Grant	40,221	-	40,221	17,089	40,221	-	0.00%
Other Grants and Contributions	-	-	-	1,373	1,373	1,373	N/A
Cycling, Walking and Safer Streets	2,310	1,068	3,378	-	3,378	-	0.00%
Town Centre Funding / Place Based Investment Programme	1,735	-	1,735	2,223	2,223	488	28.13%
Transfer of Management of Development Funding (TMDF)	45,182	-	45,182	1,118	45,182	-	0.00%
Early Years and Childcare - Expansion	-	-	-	-	-	-	N/A
Regeneration Funding - Powderhall Stables	-	-	-	-	-	-	N/A
Other Government Grants	-	-	-	(1,234)	-	-	N/A
Capital Grants Unapplied Account Drawdown	-	-	-	-	-	-	0.00%
<b>Total Grants</b>	<b>89,448</b>	<b>1,068</b>	<b>90,516</b>	<b>20,569</b>	<b>92,377</b>	<b>1,861</b>	<b>2.06%</b>
<b>Total Funding</b>	<b>92,448</b>	<b>21,262</b>	<b>113,710</b>	<b>30,713</b>	<b>114,560</b>	<b>850</b>	<b>0.75%</b>
<i>Borrowing</i>							
New Prudential Borrowing in Year	9,340	4,270	13,610	-	5,765	(7,845)	-57.64%
New On-Lending in Year	16,972	3,057	20,029	-	20,029	-	0.00%
New Capital Advance - Trams to Newhaven	39,503	15,197	54,700	-	55,238	538	0.98%
New Capital Advance - General Fund	44,773	(18,864)	25,909	48,746	30,407	4,498	17.36%
<b>Balance to be funded through Loans Fund Advance</b>	<b>110,588</b>	<b>3,660</b>	<b>114,248</b>	<b>48,746</b>	<b>111,439</b>	<b>(2,809)</b>	<b>-2.46%</b>

## Appendix 2 - 2022/23 Capital Monitoring

### Housing Revenue Account

#### Period 5

Expenditure	Approved	Adjustments	Revised	Actual to	Projected	Projected Outturn	
	Budget		Budget	Date	Outturn	Variance	
	£000	£000	£000	£000	£000	£000	%
New Homes Development	43,332	(5,608)	37,724	7,807	39,107	1,383	3.7%
New Homes Land Costs	16,800	(2,456)	14,344	46	14,303	(41)	-0.3%
Improvement to Council Homes and Estates	66,687	-	66,687	20,683	64,698	(1,989)	-3.0%
<b>Total Gross Expenditure</b>	<b>126,819</b>	<b>(8,064)</b>	<b>118,755</b>	<b>28,535</b>	<b>118,108</b>	<b>(647)</b>	<b>-0.5%</b>

  

Income	Approved	Adjustments	Revised	Actual to	Projected	Projected Outturn	
	Budget		Budget	Date	Outturn	Variance	
	£000	£000	£000	£000	£000	£000	%
Capital Receipts and Other Contributions	-	-	-	2,567	2,567	2,567	0.0%
Capital Funded from Current Revenue	23,300	(2,456)	20,844	-	20,844	-	0.0%
Receipts from LLPs	6,444	-	6,444	3,042	6,444	-	0.0%
Scottish Government Subsidy	4,137	-	4,137	1,185	4,137	-	0.0%
Specific Capital Grant	5,000	-	5,000	-	5,000	-	0.0%
<b>Total Income</b>	<b>38,881</b>	<b>(2,456)</b>	<b>36,425</b>	<b>6,794</b>	<b>38,992</b>	<b>2,567</b>	<b>7.0%</b>

  

<b>Balance to be funded through Loans Fund Advance</b>	<b>87,938</b>	<b>(5,608)</b>	<b>82,330</b>	<b>21,741</b>	<b>79,116</b>	<b>(3,214)</b>	<b>0%</b>
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## 2022/23 Revised Budget Prudential Indicators

### Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2021/22 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual £000	Forecast £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
<b>Rolled Forward Capital Investment Programme</b>						
Education and Children's Services	95,726	36,236	71,215	103,555	83,314	31,563
Place	176,181	99,560	130,679	79,059	75,997	20,223
Place - Lending	4,167	20,029	62,413	70,500	41,793	10,804
Place - Trams to Newhaven	68,486	55,238	3,507	0	0	0
Place - Asset Management Works	23,236	13,129	26,441	33,677	31,484	20,473
Corporate Services	3,155	1,524	4,091	1,597	669	678
Edinburgh Health and Social Care Partnership	164	284	0	0	0	0
Contingency	0	0	0	0	5,000	5,000
General Slippage in Programme	0	0	-18,660	-5,573	4,574	17,928
<b>Total General Services Capital Expenditure</b>	<b>371,115</b>	<b>225,999</b>	<b>279,685</b>	<b>282,814</b>	<b>242,831</b>	<b>106,669</b>

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2022-2027 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
<b>Rolled Forward Capital Investment Programme</b>						
Housing Revenue Account	64,850	118,108	174,587	266,705	512,713	515,030

### Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2021/22 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
General Services	6.8%	12.8%	8.1%	8.2%	8.2%	8.2%
Housing Revenue Account (HRA)	32.0%	35.7%	37.7%	40.5%	44.2%	47.9%

Note: Figures for 2023/24 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 2 February 2021.

The estimates of financing costs include current commitments in the capital plans set out in Appendices 3 and 4.

### Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2022 are:

	Capital Financing Requirement					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual £m	Forecast £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
General Services (including Finance Leases)	1,411	1,450	1,501	1,546	1,579	1,546
Housing Revenue Account (HRA)	394	458	542	646	788	941
NHT LLPs	56	32	15	15	0	0
Edinburgh Living LLPs	42	61	123	192	234	244
<b>Total Capital Financing Requirement</b>	<b>1,903</b>	<b>2,001</b>	<b>2,180</b>	<b>2,400</b>	<b>2,601</b>	<b>2,731</b>

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequences of all of the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances. Exit strategies are still to be finalised for the remaining three LLPs, however four have repaid their loans in full.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence.

In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that 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.

	Gross Debt and the Capital Financing Requirement					
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual £m	Forecast £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Gross Debt	1,780	1,720	1,670	1,622	1,548	1,474
Capital Financing Requirements	1,903	2,001	2,180	2,400	2,601	2,731
<b>(Over) / under limit by:</b>	<b>123</b>	<b>282</b>	<b>510</b>	<b>778</b>	<b>1,052</b>	<b>1,257</b>

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

In 2022/2023, the Authority will apply IFRS 16 Leases as adopted by the Code of Accounting Practice. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. Therefore, it should be expected to see an increase in the CFR in future years. This will similarly have an impact on the authorised limit and operational boundary for external debt.

**Indicator 4 - Authorised Limit for External Debt**

The authorised limit should reflect a level of borrowing which, while not desired, could be afforded, but may not be sustainable. "Credit Arrangements" as defined by Financial Regulations, has been used to calculate the authorised and operational limits requiring both the short and long term liabilities relating to finance leases and PFI assets to be considered. In respect of its external debt, the following authorised limits for its total external debt gross of investments for the next four financial years was approved in February 2022. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council have approved these limits and to delegate authority to the Service Director for Finance and Procurement, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.

	<b>Authorised Limit for External Debt</b>					
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	1,690	1,919	2,256	2,708	3,194	3,613
Credit Arrangements (including leases)	289	284	279	274	268	262
<b>Authorised Limit for External Debt</b>	<b>1,980</b>	<b>2,203</b>	<b>2,535</b>	<b>2,982</b>	<b>3,462</b>	<b>3,875</b>

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely (but not worst case) scenario with sufficient headroom to allow for operational treasury management. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

**Indicator 5 - Operational Boundary for External Debt**

The Council has also approved, in February 2022, the following operational boundary for external debt for the same period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council has also delegated authority to the Service Director for Finance and Procurement, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

	<b>Operational Boundary for External Debt</b>					
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	1,640	1,869	2,206	2,658	3,144	3,563
Credit Arrangements (including leases)	289	284	279	274	268	262
<b>Operational Boundary for External Debt</b>	<b>1,930</b>	<b>2,153</b>	<b>2,485</b>	<b>2,932</b>	<b>3,412</b>	<b>3,825</b>

The Council's actual external debt at 31 March 2021 was £1,347m of borrowing (including sums repayable within 12 months).



**Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans**

Under the changes to the Prudential Code which came into force in December 2017, the requirement to measure and report on the incremental impact on the Council Tax / rents was removed from the Code. The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director for Finance and Procurement considers that Council should be advised of the loans charges cost implications which will result from the spending plans being considered for approval. These cost implications have been included in the Council's Revenue and HRA budgets for 2022/23 and for future years will be considered as part of the longer term financial frameworks.

	<b>Loans Charges Liability</b>					
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>Actual £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £001</b>
<b>General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances</b>						
Loans Fund Advances in year	147,789	35,119	101,942	109,404	104,655	41,977
Year 1 - Interest Only	2,997	712	2,067	2,218	2,122	851
Year 2 - Interest and Principal Repayment	8,597	2,043	5,930	6,364	6,088	2,442
<b>Housing Revenue Account (HRA) - New Loans Fund Advances</b>						
Loans Fund Advances in year (excl. LLP programme *)	35,364	82,330	104,216	127,158	167,115	182,537
Year 1 - Interest Only	761	1,772	2,243	2,737	3,597	3,929
Year 2 - Interest and Principal Repayment	2,120	4,935	6,247	7,622	10,017	10,941

\* The loans charges associated with the borrowing required for the house building programme for onward transferred to the LLPs will be met from the LLPs and does therefore not have a net impact on the HRA or General Services revenue budget. Tram repayments are based on the income model and will commence in 2023/24 when the line to Newhaven becomes operational.

**Consideration of options for the capital programme**

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax or house rents;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. option appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the authority;
- practicality, e.g. achievability of the forward plan.