

# Governance, Risk and Best Value Committee

10.00am, Tuesday 14 March 2023

## Capital Monitoring 2022/23 – month eight position – referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

### 1. For Decision/Action

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- 1.1 The Finance and Resources Committee has referred the Capital Monitoring 2022/23 – month eight position report to the Governance, Risk and Best Value Committee for scrutiny as part of its work programme.

**Dr Deborah Smart**  
Executive Director of Corporate Services

Contact: Rachel Gentleman, Committee Officer  
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# Referral Report

## Capital Monitoring 2022/23 – month eight position

### 2. Terms of Referral

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- 2.1 On 26 January 2023, the Finance and Resources Committee considered a report which set out the capital expenditure and funding position as at month eight and full-year outturn projections for the 2022/23 financial year, providing explanations for key variances.
- 2.2 The Finance Resources Committee agreed:
  - 2.2.1 To note the capital monitoring position for the General Fund and Housing Revenue Account (HRA) at month eight of the 2022/23 financial year.
  - 2.2.2 To note the Prudential Indicators attached at Appendix 3 to the report.
  - 2.2.3 To note that the Finance and Resources Committee was responsible for oversight of the Capital Investment Programme, with approval reserved for full Council.
  - 2.2.5 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 – 26 January 2023 - Webcast](#)
- 3.2 Minute of the Finance and Resources Committee – 26 January 2023

### 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, 26 January 2023

## Capital Monitoring 2022/23 - Month Eight 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 eight of the 2022/23 financial year;
- 1.2 To note the Prudential Indicators in appendix 3;
- 1.3 To note that the Finance and Resources Committee is responsible for oversight of the Capital Investment Programme, with approval reserved for full Council; and
- 1.4 To refer the report to the Governance, Risk and Best Value Committee as part of its work programme.

#### Richard Carr

Executive Director of Corporate Services

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## Capital Monitoring 2022/23 - Month Eight Position

### 2. Executive Summary

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- 2.1 The report provides the capital expenditure and funding position as at month eight and full-year outturn projections for the 2022/23 financial year, providing explanations for key variances.
- 2.2 At month eight, the General Fund is projecting capital expenditure of £251.067m and capital income of £129.903m, resulting in a net requirement of £121.164m in loans fund advances. This is £8.224m lower than the revised budget update provided in month three due to updated cashflows across the programme.
- 2.3 At month eight, the Housing Revenue Account (HRA) is projecting capital expenditure of £106.590m and capital income of £60.809m, resulting in a net requirement of £45.780m in loans fund advances.

### 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.

- 3.4 The month five capital monitoring position was reported to Finance and Resources Committee on 10<sup>th</sup> November 2022. This report incorporated updated outturn projections and adjusted the budget to reflect funding received since the month three update. This report incorrectly stated that Finance and Resources Committee has responsibility for approval of the Council's overall capital investment programme. To clarify, this committee provides an oversight role only, with approval reserved for full Council.

## 4. Main report

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

#### General Fund Capital

- 4.1 At month eight, general fund expenditure is projected to be £251.067m, compared against a budget of £255.332m, resulting in projected capital expenditure slippage of £4.265m. Grants and other capital income are forecast to be £129.903m with the remaining expenditure being funded by loans fund advances of £121.164m. This is £8.224m less than the revised budget update provided in month three reflecting updated cashflows received across the programme. A breakdown by programme is provided in Appendix 1, with additional commentary provided in sections 4.2 to 4.7.
- 4.2 There has been capital expenditure of £28.685m on the Learning Estate as at month eight. As reported at month five, expenditure relates primarily to Early Years projects, Boroughmuir High School, Trinity Academy and Wester Hailes Education Centre with increased spend since then on the New South Edinburgh Primary and the Darroch Refurbishment. There is an overall net slippage forecast of £9.443m in the year, which relates predominantly to;
- Rising School Rolls £6.312m
  - Currie High School £8.521m;
  - Capital budget returned to the programme from front funded projects following the application of Capital Receipts and Developers Contributions £6.408m; and
  - New Castlebrae High School has acceleration of £11.031m partially offsetting the above slippage as anticipated Developers Contributions and the land receipt from HRA are yet to be received.

It remains that the Learning Estate strategy is experiencing significant financial pressure due to current market conditions. The budget proposals will be brought to the Special Budget meeting on 7<sup>th</sup> February 2023, seeking to address these pressures.

- 4.3 For Place - Transport & Infrastructure, there has been capital expenditure of £37.211m as at month 8. Expenditure projections have been updated on projects reported at month 5 with North Bridge £8.333m, Carriageways and Footways

£10.990m, and City Centre West East Link (CCWEL) Active Travel project £5.122m. The outturn slippage forecast of £0.362m relates to:

- Tram Lifecycle and renewal costs of £1.100m not yet being required as previously expected.
- Carriageways and Footways slightly under budget by £0.506m.
- The North Bridge refurbishment is seeing increased costs and is forecast to exceed its current year allocation by £1.203m, offsetting the overall Pace slippage. The overall increase in costs is likely to be significantly more than this and is being considered as part of the budget proposals being brought forward in February 2023.

- 4.4 For other Place Projects, there is an overall slippage of £3.555m most significantly due to the Fleet Replacement Programme £3.974m experiencing long lead times for vehicles.
- 4.5 Within Place – Trams to Newhaven, latest forecasts show a reprofiling of cashflows in line with the programme. This has resulted in £1.752m of expenditure being accelerated into 2022/23 from 2023/24. It remains that the project is expected to complete on time in Spring 2023, and within the approved budget of £207.3m.
- 4.6 Within Place - Lending there has been capital expenditure of £18.400m as at month eight for completed units which have transferred to Edinburgh Living LLP.
- 4.7 Within Asset Management Works Programme, there has been capital expenditure of £7.836m as at month eight across various projects, with outturn slippage of £10.781m against a budget of £22.102m.
- Portobello Swim Centre was forecast to spend £4.121m in 2022/23 but is expected to be delayed as Edinburgh Leisure consider implications of tender costings;
  - The Enerphit programme is not expected to start until 2023/24 giving slippage of £4.275m; and
  - Following revised forecasts there is other general slippage in the programme of £2.384m

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

- 4.8 The month eight monitoring shows HRA capital expenditure of £56.654m 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. HRA Capital expenditure slippage of £12.165m is expected in the year and a breakdown by programme is provided in Appendix 2, with additional commentary provided in sections 4.9 to 4.12.
- 4.9 The forecast capital expenditure outturn on the Council New Homes Development Programme is acceleration of £3.895m which is primarily due to;
- Western Villages £1.844m following a reprogramming of delivery

- The expected Purchase of 23 homes from the Dreghorn Estate for £5.7m
- Slippage of Granton D1 £1.786m, Pennywell Town Centre £0.900m; and Powderhall BGS £0.751m

- 4.10 The forecast capital expenditure outturn on the Land element of the Council Housebuilding Programme remains in line with budget, with the purchase of Liberton Hospital expected to complete within the financial year.
- 4.11 The forecast capital expenditure outturn against Improvements to Council Homes and Estates is slippage of £16.060m primarily due to supply chain disruption, including shortages of materials and contractor availability experienced earlier in the year.
- 4.12 The month eight monitoring shows HRA capital income of £24.780m for the financial year so far, primarily from capital receipts from sales to Edinburgh Living LLP and the receiving of grant for Western Villages. The projected Capital income is £60.809m, which is £24.384m more than the revised budget, due to the completion of transfers to Edinburgh Living happening ahead of the dates assumed at budget setting. The amount to be funded through the Loans Fund Advance is projected to be £45.780m, a reduction of £36.549m reflecting the additional income and programme slippage.

## 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 A further report will be presented to Finance and Resource Committee at month 12 showing the final outturn 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 £121.164m. The overall loan charges associated with this over a 30-year period would be a principal amount of £121.164m, estimated interest and expenses of £108.162m, resulting in a total cost of £229.326m based on the PWLB rate at the time of writing. The average annual cost would be £7.644m for 30 years.
- 6.2 The 2022/23 HRA projected outturn outlines loans fund advances of £45.780m. The overall loans charges associated with this over a 30-year period would be a principal amount of £45.780m, interest of £42.920m, resulting in a total cost of £88.700m based on the PWLB rate at the time of writing. The average annual cost would be £2.957m 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
- 8.3 [Capital Monitoring 2022-23 - Month 5 Position](#), Finance and Resources Committee, 10 November 2022

## **9. Appendices**

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- 9.1 Appendix 1 – 2022/23 Capital Monitoring Month Eight – General Fund
- 9.2 Appendix 2 – 2022/23 Capital Monitoring Month Eight – HRA
- 9.3 Appendix 3 – 2022/23 Prudential Indicators



## Appendix 1 - 2022/23 Capital Monitoring

### General Fund Summary

#### Period 8

Expenditure	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected (Varian £000
Learning Estate	31,645	12,299	43,944	28,685	34,501	-9,443
Edinburgh Living LLPs	16,972	20,845	37,817	18,400	37,817	0
Trams to Newhaven	39,503	15,197	54,700	39,267	56,452	1,752
Asset Management Works	29,425	-7,323	22,102	7,836	11,321	-10,781
Place - Transport & Infrastructure	48,436	-147	48,289	37,211	47,928	-362
Place - Other	56,547	4,954	61,501	32,959	57,945	-3,555
Corporate Services	807	469	1,276	335	1,001	-276
Edinburgh Health and Social Care Partnership	0	284	284	601	601	317
Other Community	1,395	5,394	6,789	2,813	3,502	-3,287
Contingency	0	324	324	0	0	-324
Slippage Assumption	-21,694	0	-21,694	0	0	21,694
<b>Total Gross Expenditure</b>	<b>203,036</b>	<b>52,296</b>	<b>255,332</b>	<b>168,106</b>	<b>251,067</b>	<b>-4,265</b>

Funding	Approved Budget £000	Adjustments £000	Revised Budget £000	Actual to Date £000	Projected Outturn £000	Projected (Varian £000
<i>Receipts/Contributions</i>						
Asset Sales	3,000	831	3,831	1,841	3,571	-260
Capital From Current Revenue (CFCR)	0	6,094	6,094	1,223	6,123	28
Other Capital Contributions (Edinburgh Living)	0	4,100	4,100	4,100	4,100	0
Developers Contributions Applied	0	5,708	5,708	3,350	6,052	344
<b>Total Receipts and Contributions</b>	<b>3,000</b>	<b>16,734</b>	<b>19,734</b>	<b>10,514</b>	<b>19,846</b>	<b>113</b>
<i>Grants</i>						
Scottish Government General Grant	40,221	12,251	52,472	36,945	52,472	0
Less: Contribution to Capital Fund (Pay Award)	0	-9,700	-9,700	0	-9,700	0
Other Government Grants	49,227	14,211	63,438	32,494	67,285	3,847
<b>Total Grants</b>	<b>89,448</b>	<b>16,762</b>	<b>106,210</b>	<b>69,439</b>	<b>110,057</b>	<b>3,847</b>
<i>Borrowing</i>						
Loans Fund Advances	110,588	18,800	129,388	88,153	121,164	-8,224
<b>Total Borrowing</b>	<b>110,588</b>	<b>18,800</b>	<b>129,388</b>	<b>88,153</b>	<b>121,164</b>	<b>-8,224</b>
<b>Total Funding</b>	<b>203,036</b>	<b>52,296</b>	<b>255,332</b>	<b>168,106</b>	<b>251,067</b>	<b>-4,265</b>

**Outturn**

ice	%
	-21%
	0%
	3%
	-49%
	-1%
	-6%
	-22%
	112%
	-48%
	-100%
	-100%
	<u>-2%</u>

**Outturn**

ice	%
	-7%
	0%
	0%
	6%
	<u>1%</u>
	0%
	0%
	6%
	<u>4%</u>
	-6%
	<u>-6%</u>
	<u>-2%</u>

## Appendix 2 - 2022/23 Capital Monitoring

### Housing Revenue Account

#### Period 8

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	19,133	41,620	3,895	10.3%
New Homes Land Costs	16,800	-2,456	14,344	83	14,343	-0	0.0%
Improvement to Council Homes and Estates	66,687	0	66,687	37,438	50,627	-16,060	-24.1%
<b>Total Gross Expenditure</b>	<b>126,819</b>	<b>-8,064</b>	<b>118,755</b>	<b>56,654</b>	<b>106,590</b>	<b>-12,165</b>	<b>-10.2%</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	0	0	0	3,692	3,692	3,692	N/A
Capital Funded from Current Revenue	23,300	-2,456	20,844	0	18,300	-2,544	-12.2%
Receipts from LLPs	6,444	0	6,444	10,003	20,432	13,988	217.1%
Scottish Government Subsidy	4,137	0	4,137	9,174	13,385	9,248	223.5%
Specific Capital Grant	5,000	0	5,000	1,911	5,000	0	0.0%
<b>Total Income</b>	<b>38,881</b>	<b>-2,456</b>	<b>36,425</b>	<b>24,780</b>	<b>60,809</b>	<b>24,384</b>	<b>66.9%</b>
<b>Balance to be funded through Loans Fund Advance</b>	<b>87,938</b>	<b>-5,608</b>	<b>82,330</b>	<b>31,874</b>	<b>45,780</b>	<b>-36,549</b>	<b>-44%</b>

**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:

	<b>Capital Expenditure - General Services</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</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
<b>Rolled Forward Capital Investment Programme</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Education and Children's Services	95,726	38,003	71,215	103,555	83,314	31,563
Place	176,181	105,873	159,279	79,059	75,997	20,223
Place - Lending	4,167	37,817	62,413	70,500	41,793	10,804
Place - Trams to Newhaven	68,486	56,452	3,507	0	0	0
Place - Asset Management Works	23,236	11,321	0	0	0	0
Corporate Services	3,155	1,001	26,441	33,677	31,484	20,473
Edinburgh Health and Social Care Partnership	164	601	4,091	1,597	669	678
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>251,067</b>	<b>308,285</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.

	<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</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Rolled Forward Capital Investment Programme</b>						
Housing Revenue Account	64,850	106,590	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:

	<b>Ratio of Financing Costs to Net Revenue Stream</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</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
General Services	6.8%	13.4%	7.9%	8.0%	8.0%	8.0%
Housing Revenue Account (HRA)	32.0%	33.0%	35.8%	38.7%	44.1%	49.0%

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.

The estimates of financing costs include current commitments in the capital plans set out in Appendices 1 and 2.

**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:

	<b>Capital Financing Requirement</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</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Services (including Finance Leases)	1,411	1,461	1,540	1,584	1,616	1,581
Housing Revenue Account (HRA)	394	422	506	611	753	908
NHT LLPs	56	32	15	15	0	0
Edinburgh Living LLPs	42	79	140	210	251	261
<b>Total Capital Financing Requirement</b>	<b>1,903</b>	<b>1,993</b>	<b>2,201</b>	<b>2,420</b>	<b>2,621</b>	<b>2,750</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.

	<b>Gross Debt and the Capital Financing Requirement</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</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Debt	1,789	1,728	1,679	1,630	1,556	1,480
Capital Financing Requirements	1,903	1,993	2,201	2,420	2,621	2,750
<b>(Over) / under limit by:</b>	<b>114</b>	<b>265</b>	<b>523</b>	<b>790</b>	<b>1,064</b>	<b>1,270</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	1,911	2,269	2,749	3,234	3,652
Credit Arrangements (including leases)	289	284	279	274	268	262
<b>Authorised Limit for External Debt</b>	<b>1,980</b>	<b>2,195</b>	<b>2,548</b>	<b>3,023</b>	<b>3,503</b>	<b>3,914</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	1,861	2,219	2,699	3,184	3,602
Credit Arrangements (including leases)	289	284	279	274	268	262
<b>Operational Boundary for External Debt</b>	<b>1,930</b>	<b>2,145</b>	<b>2,498</b>	<b>2,973</b>	<b>3,453</b>	<b>3,864</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	44,091	130,542	109,404	104,655	41,977
Year 1 - Interest Only	2,997	894	2,647	2,218	2,122	851
Year 2 - Interest and Principal Repayment	8,597	2,565	7,594	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	45,780	104,216	127,158	167,115	182,537
Year 1 - Interest Only	761	986	2,243	2,737	3,597	3,929
Year 2 - Interest and Principal Repayment	2,120	2,744	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.