

# Treasury Management Strategy 2016/17 Appendix 1- Annex 1

Cabinet

Date: 8<sup>th</sup> February 2017

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## Annex 1 – Prudential Indicators

### 1 Capital Indicators

1.1 The Council's capital expenditure plans are a key driver of treasury management activity. The outputs from capital expenditure plans are reflected in prudential indicators, which are designed to assist the Members overview and confirm capital expenditure plans.

**Table 1 - Capital Expenditure Projections**

Capital Expenditure	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
General Fund Approved	126,021			
General Fund New		10,035	8,487	8,487
HRA Approved	35,129			
HRA Estimated New		16,528	16,600	16,600
<b>Total</b>	<b>161,150</b>	<b>26,563</b>	<b>25,087</b>	<b>25,087</b>

1.2 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2016 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent approvals at Cabinet in February 2017 for 2016/17 and 2017/18, and an estimate for 2018/19 assumed at the same level as 2017/18. These represent total approvals, irrespective of funding source.

1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR represents the total long term borrowing requirement (ie borrowing required to finance capital approvals), regardless of whether the borrowing has been undertaken or not.

1.4 Details of the Council's projections for actual external debt compared to the CFR are contained in table 1 of the main Strategy. Note the figures are estimates, not commitments.

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**Table 2 Capital Financing Requirement**

General Fund	16/17	17/18	18/19	19/20
CFR b/fwd	274,718	286,511	303,335	304,685
Spend from borrowing	13,427	11,906	2,569	2,569
Asset Transfer from HRA	-	6,000	-	-
Less MRP	- 1,634	- 1,082	- 1,219	- 1,400
Sub-total	286,511	303,335	304,685	305,854
Add PFI Liability	52,810	51,280	49,555	47,632
Closing CFR incl PFI	339,321	354,615	354,240	353,486
HRA	16/17	17/18	18/19	19/20
CFR b/fwd	130,532	125,532	114,532	109,532
Spend from borrowing	-	-	-	-
Asset Transfer to GF	-	- 6,000	-	-
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
Closing CFR	125,532	114,532	109,532	104,532
Total CFR	464,853	469,147	463,772	458,018

## 2 Affordability Indicators

2.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans and subsequent finance costs on the Council's overall finances.

2.2 Table 3 below shows the estimated financing costs (interest and debt repayment) as a proportion of the General Fund and HRA budgets.

**Table 3 - Estimate of the ratio of financing costs to net revenue stream**

	16/17	17/18	18/19	19/20
General Fund	8.2%	7.6%	7.2%	7.3%
HRA	38.2%	41.2%	41.6%	41.2%

2.3 Table 4 calculates the impact of new approvals funded from borrowing on the tax payer, based on approvals from the February Cabinet Report. It is effectively the increase in debt charges (interest and debt repayment) divided by the estimated tax base. The 2018/19 estimate is based on the assumption that approvals are at the same level as 2017/18.

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**Table 4 - Incremental impact of capital investment decisions on the band D Council Tax**

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Current Approved Programme	£11.50	£16.97	£16.73	£16.50
New Proposals	£0.11	£0.44	£0.66	£0.65

## 3 Borrowing Indicators

**3.1 The Operational Boundary.** This is the limit beyond which external borrowing is not normally expected to exceed. This limit reflects the Councils current estimated debt position, with the assumption that internal borrowing will be reduced as new external borrowing is undertaken. Other long term liabilities represent PFI and finance leases.

<b>Table 5 - Operational Boundary</b>			
<b>Op Boundary</b>	<b>17/18</b>	<b>18/19</b>	<b>19/20</b>
Debt	312,756	316,255	329,754
Other Long Term Liabilities	51,280	49,555	47,632
<b>Total</b>	<b>364,036</b>	<b>365,810</b>	<b>377,386</b>

**3.2 The Authorised Limit for external borrowing.** A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited. This has been set to reflect the Council's estimate of the Capital Financing Requirement for borrowing, and for other long term liabilities (PFI and other leases) at £5m above the Operational Boundary (i.e. the expected level)

<b>Table 6 - Authorised Limit</b>			
<b>Authorised Limit for External Debt</b>	<b>17/18</b>	<b>18/19</b>	<b>19/20</b>
Borrowing	417,867	414,217	410,386
Other Long Term Liabilities	56,280	54,555	52,632
<b>TOTAL</b>	<b>474,147</b>	<b>468,772</b>	<b>463,018</b>

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3.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2017/18 Estimate £'000's	2018/19 Estimate £'000's	2019/20 Estimate £'000's
HRA debt cap	172,600	172,600	172,600
HRA CFR 31 <sup>st</sup> March	114,532	109,532	104,532
HRA headroom	58,068	63,068	68,068

## 4 Activity Limit Indicators

4.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rate loans ( based upon the debt position net of investments)
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates loans;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a single period;

**Table 7-Treasury Management Activity Limits**

£m	2017/18	2018/19	2019/20
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
<b>Maturity Structure of fixed interest rate borrowing 2016/17</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	15%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	40%	
10 years and above	0%	80%	
In any 10 year period above 10 years	0%	50%	

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4.2 The maximum amount the council will invest for more than 1 year is set out in the table below;

Maximum principal sums invested > 364 days			
£m	2017/18	2018/19	2019/20
Principal sums invested > 364 days	£20m	£20m	£20m