

# Treasury Management Strategy 2018/19 Appendix 1- Annex 1

Cabinet

Date: 7<sup>th</sup> February 2018

## 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	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Fund Approved	51,577				
General Fund New		12,029	8,487	8,487	8,487
HRA Approved	48,183				
HRA Estimated New		15,500	15,500	15,500	15,500
<b>Total</b>	<b>99,760</b>	<b>27,529</b>	<b>23,987</b>	<b>23,987</b>	<b>23,987</b>

- 1.2 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2017 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent proposed approvals for Cabinet in February 2018. These represent total approvals, irrespective of funding source. Figures in the "HRA estimated new" represent the annual capital expenditure in the HRA maintenance programme
- 1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR represents the total long term borrowing requirement (i.e. 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.
- 1.5 The asset transfer noted below represents the net capital value of the commercial and other assets transferred to the General Fund from the HRA, and is offset by the transfer of houses from the General Fund to the HRA.

**Table 2 Capital Financing Requirement**

General Fund	2017/18	2018/19	2019/20	2020/21	2021/22
CFR b/fwd.	286,511	318,212	320,300	321,469	322,473
New schemes from borrowing	26,783	3,307	2,569	2,569	2,569

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Asset Transfer from HRA	6,000	0	0	0	0
Less MRP	(1,082)	(1,219)	(1,400)	(1,565)	(1,565)
Sub-total	318,212	320,300	321,469	322,473	323,477
Add PFI Liability	51,280	49,555	47,632	45,505	45,505
Closing CFR incl. PFI	369,492	369,855	369,101	367,978	368,982

<b>HRA</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
CFR b/fwd.	125,532	114,532	109,532	104,532	99,532
Spend from borrowing	0	0	0	0	0
Asset Transfer to GF	(6,000)	0	0	0	0
Less MRP	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Closing CFR	114,532	109,532	104,532	99,532	94,532
<b>Total CFR</b>	<b>484,024</b>	<b>479,387</b>	<b>473,633</b>	<b>467,510</b>	<b>463,514</b>

## 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**

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
General Fund	8.3%	7.6%	7.4%	7.4%	7.3%
HRA	41.3%	39.3%	39.0%	38.6%	38.6%

- 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 2019/20 estimate is based on the assumption that approvals are at the same level as 2018/19.

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

	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
Current Approved Programme	£16.73	£16.50	£16.27	£16.06
New Proposals	£20.30	£20.02	£19.75	£19.48

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## 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.

**Table 5 - Operational Boundary**

	2017/18	2018/19	2019/20	2020/21	2021/22
CFR b/fwd.	432,744	429,832	426,001	422,005	418,009
Other Long Term Liabilities	51,280	49,555	47,632	45,505	45,505
New Borrowing	20,000	20,000	20,000	20,000	20,000
<b>Total</b>	<b>504,024</b>	<b>499,387</b>	<b>493,633</b>	<b>487,510</b>	<b>483,514</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)

**Table 6 - Authorised Limit for External Debt**

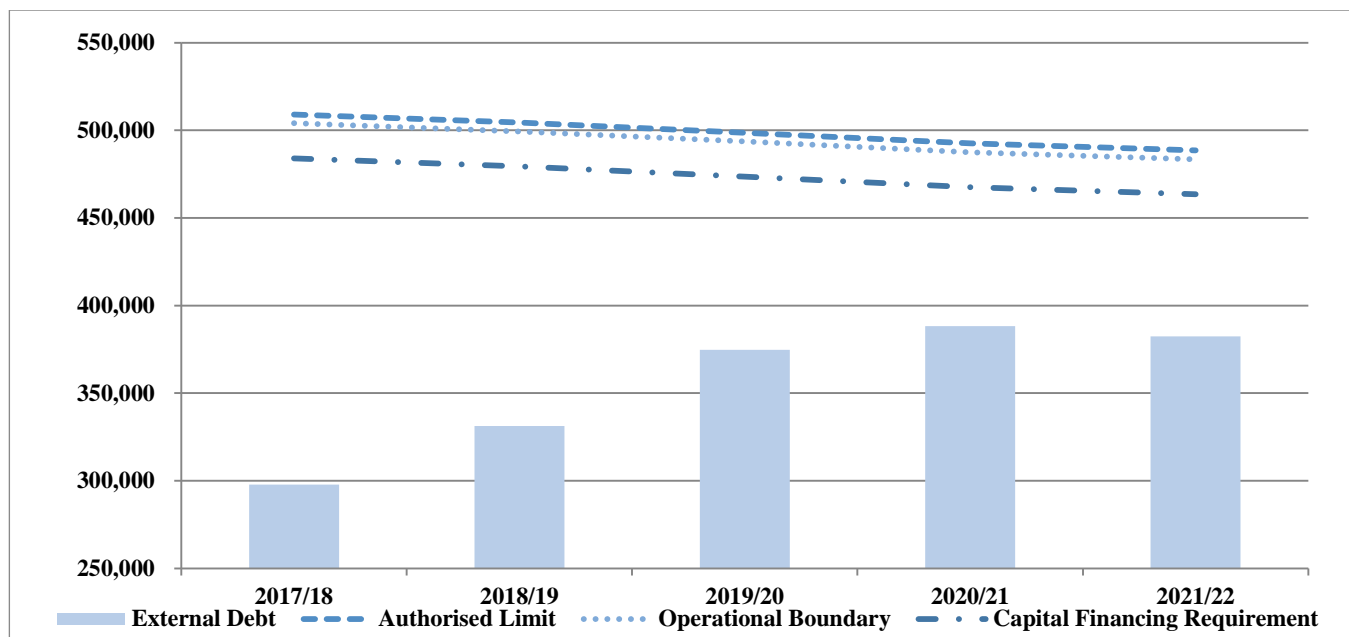
	2017/18	2018/19	2019/20	2020/21	2021/22
Borrowing	452,744	449,832	446,001	442,005	438,009
Other Long Term Liabilities	51,280	49,555	47,632	45,505	45,505
Uplift applied to borrowing	5,000	5,000	5,000	5,000	5,000
<b>TOTAL</b>	<b>509,024</b>	<b>504,387</b>	<b>498,633</b>	<b>492,510</b>	<b>488,514</b>

- 3.3 The above information is summarised in the graph below, showing existing debt, the CFR, the Operational Limit and the Authorised Limit

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- 3.4 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The table below also includes the anticipated HRA investment balance, it is anticipated that this will reduce over the next 4 years as the HRA uses its capital reserves to purchase property as part of its £17m acquisition programme.

HRA Debt Limit £m	2017/18 Estimate £'000's	2018/19 Estimate £'000's	2019/20 Estimate £'000's	2020/21 Estimate £'000's	2021/22 Estimate £'000's
HRA debt cap	172,599	172,600	172,600	172,600	172,600
HRA CFR 31st March	114,532	109,532	104,532	99,532	94,532
HRA headroom	58,067	63,068	68,068	73,068	78,068
HRA Average investment balance	30,000	25,000	20,000	15,000	15,000

## 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)

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- 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	2018/19	2019/20	2020/21	2021/22
<b>Interest rate Exposures</b>				
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%	30%
<b>Maturity Structure of fixed interest rate borrowing 2018/19</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%	

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

<b>Maximum principal sums invested &gt; 365 days</b>				
£m	2018/19	2019/20	2020/21	2021/22
Principal sums invested > 365 days	£20m	£20m	£20m	£20m