Treasury Management Strategy 2021/22 Appendix 1- Annex 1

Cabinet **Date:** 3rd February 2021

Annex 1 – The Capital Prudential Indicators 2021/22 – 2025/26

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.

2 **Capital expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 – Capital Expenditure Projections

Capital Expenditure Projections	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
General Fund Approved	75.6	142.5	60.0	20.5	9.0	1.1	308.7
General Fund New	0.0	4.6	0.6	0.0	0.0	0.0	5.2
HRA Approved	18.3	24.5	13.5	0.0	0.0	0.0	38.3
HRA Estimated New		24.0	18.6	19.6	21.6	21.6	105.4
Total	**93.9**	**195.6**	**92.7**	**40.1**	**30.6**	**22.7**	**475.6**

2.1 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

2.2 The figures in this indicator (General Fund approved £308.7m, HRA approved £38.0m, Total £346.7m) represent the level of current scheme approvals as reported to Cabinet in December 2020 as part of the quarterly capital monitoring process (Including new schemes agreed at that meeting). Figures in the "general fund new (£5.3m)" row represent proposed approvals for Council in February 2021. These represent total approvals, irrespective of funding source. Figures in the "HRA estimated new (£105.4m)" represent the annual capital expenditure in the HRA maintenance and new build programme.

2.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Further information on the subject of this report can be obtained from
Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

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Table 2 – Capital Expenditure Funding

Capital Expenditure Funding	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Capital receipts	0.9	2.9	2.7	2.5	2.5	2.5	14.0
Capital grants	49.0	89.0	15.0	5.3	5.3	0.0	163.6
S106	9.9	13.2	1.1	0.1	0.0	0.0	24.3
HRA	18.1	44.2	29.8	17.2	19.2	19.2	147.7
Revenue	0.9	2.2	0.0	0.0	0.0	0.0	3.1
Increase in borrowing requirement	**15.1**	**44.1**	**44.1**	**15.0**	**3.6**	**1.0**	**122.9**
Total spend	**93.9**	**195.6**	**92.7**	**40.1**	**30.6**	**22.7**	**475.6**

3 **The Council's borrowing need (the Capital Financing Requirement)**

3.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

3.3 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £47.6m (as at 1 April 2020) of such schemes within the CFR.

3.4 The Council is asked to approve the CFR projections below. Note the figures are estimates, not commitments.

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Table 3 – Capital Financing Requirement – General Fund

CAPITAL FINANCING REQUIREMENT General Fund Projections	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
CFR excl. PFI b/fwd. 1 April	342.5	357.8	400.8	440.3	450.0	447.4
PFI liabilities	47.6	45.5	43.1	40.5	37.6	34.3
CFR incl. PFI	**390.1**	**403.4**	**443.9**	**480.9**	**487.6**	**481.7**
Add Capital Expenditure funded through borrowing	15.0	44.1	44.1	15.1	3.7	1.0
Add Other Treasury adjustments	2.6	2.8	2.6	2.9	3.3	3.7
Less MRP (debt repayment)	(2.3)	(3.9)	(7.2)	(8.4)	(9.6)	(9.7)
Underlying Borrowing Requirement	357.8	400.8	440.3	450.0	447.4	442.3
PFI Liabilities	45.5	43.1	40.5	37.6	34.3	30.7
CFR c/fwd. 31 March	**403.4**	**443.9**	**480.9**	**487.6**	**481.7**	**473.0**
External Borrowing b/fwd. 1 April	(246.8)	(261.9)	(306.0)	(350.0)	(365.1)	(368.8)
Loan Maturities	11.9	21.9	14.0	24.3	15.7	12.5
HRA Debt repayment transfer to GF	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
New Loans	(21.9)	(61.0)	(53.0)	(34.3)	(14.4)	(8.6)
External Borrowing c/fwd. 31 March	(261.9)	(306.0)	(350.0)	(365.1)	(368.8)	(369.9)
Under / (Over) Borrowing	96.0	94.8	90.3	84.9	78.5	72.5
Under borrowing as a % of Underlying Borrowing Requirement (excludes PFI)	*27%*	*24%*	*21%*	*19%*	*18%*	*16%*

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Table 4 – Capital Financing Requirement – HRA

CAPITAL FINANCING REQUIREMENT HRA Fund Projections	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
CFR excl. PFI b/fwd. 1 April	104.0	99.0	94.0	89.0	84.0	79.0
Less MRP (debt repayment)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Underlying Borrowing Requirement	99.0	94.0	89.0	84.0	79.0	74.0
CFR c/fwd. 31 March	**99.0**	**94.0**	**89.0**	**84.0**	**79.0**	**74.0**
External Borrowing b/fwd. 1 April	(104.0)	(99.0)	(94.0)	(92.0)	(87.0)	(82.0)
HRA Debt repayment transfer to GF	5.0	5.0	5.0	5.0	5.0	5.0
External Borrowing c/fwd. 31 March	(99.0)	(94.0)	(89.0)	(84.0)	(79.0)	(74.0)
Under / (Over) Borrowing	-	-	-	-	-	-

3.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

Core funds and expected investment balances

3.6 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

4 **Affordability Indicators**

4.1 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.

Ratio of financing costs to net revenue stream

4.2 The table below shows the estimated financing costs (interest and debt repayment) as a proportion of the General Fund and HRA budgets.

Table 5 – Ratio of Financing costs to Revenue Stream

Estimate of the ratio of financing costs to net revenue stream	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
General Fund	2.0%	3.4%	6.0%	7.1%	8.1%	8.0%
HRA	38.7%	37.6%	36.4%	35.0%	33.1%	32.8%

4.3 The table below shows the HRA CFR & includes the anticipated HRA investment balances which are expected to reduce over the next 4 years as the HRA uses its capital reserves to purchase property & new build schemes.

Table 6 – HRA Portfolio

HRA Portfolio	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
HRA CFR 31st March	*99.0*	*94.0*	*92.0*	*87.0*	*82.0*	*77.0*
HRA Average investment balance	*25.0*	*13.0*	*7.0*	*4.0*	*4.0*	*4.0*
Number of HRA dwellings	9,858	9,798	9,738	9,678	9,618	9,558
Debt per dwelling	£10,044	£9,595	£9,449	£8,991	£8,527	£8,058

Treasury Indicators: limits to borrowing activity

4.4 **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 (using existing working capital cash balances temporarily to fund capital expenditure in advance of undertaking new external borrowing) will be reduced as new external borrowing is undertaken. Other long term liabilities represent PFI and finance leases.

Table 7 – Operational Boundary

Operational Boundary	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
CFR (borrowing requirement)	456.9	494.8	529.4	534.0	526.4	516.3
PFI liabilities	45.5	43.1	40.5	37.6	34.3	30.7
Uplift	20.0	20.0	20.0	20.0	20.0	20.0
Total	522.4	558.0	589.9	591.6	580.7	567.0

4.5 **The Authorised Limit for external borrowing**. A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a legal limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

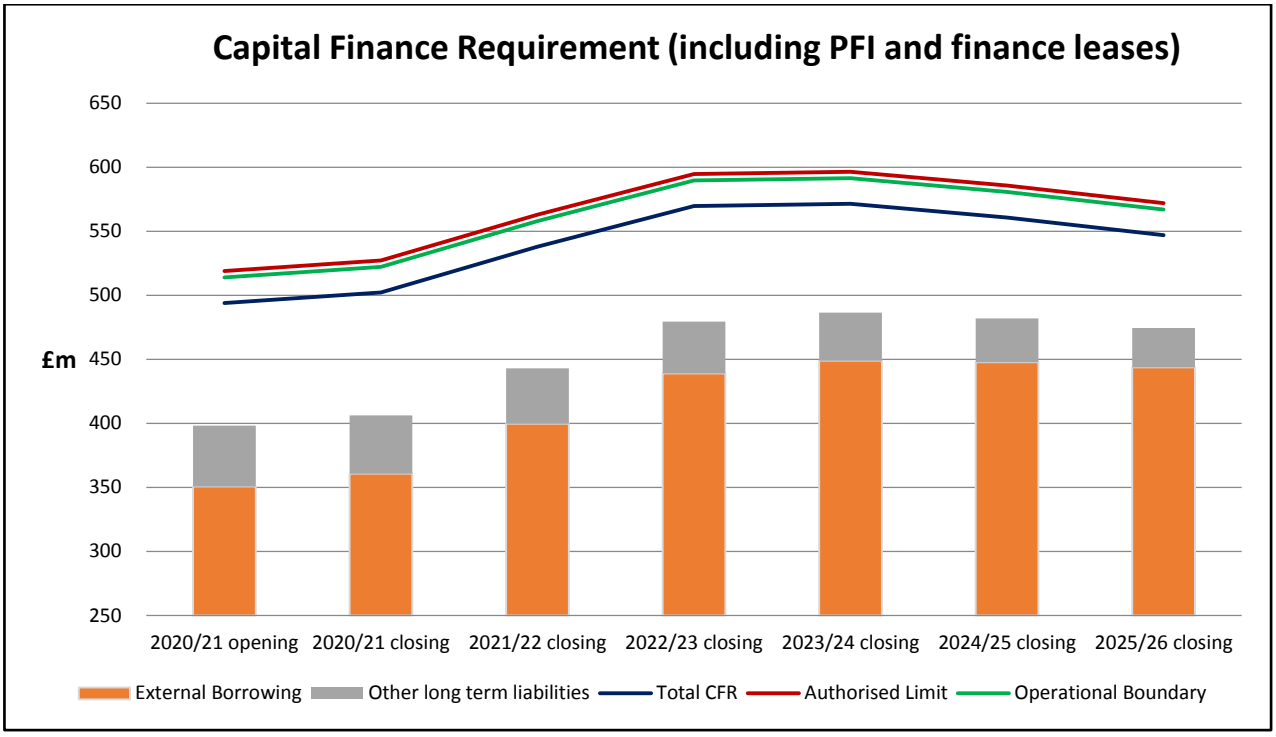
- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following authorised limit:

Table 8 – Authorised Limit

Authorised Limit	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
Operational Limit	522.4	558.0	589.9	591.6	580.7	567.0
Uplift	5.0	5.0	5.0	5.0	5.0	5.0
Total	527.4	563.0	594.9	596.6	585.7	572.0

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

Table 9 – Capital Finance Requirement (Graph)



5 **Activity Limit Indicators**

5.1 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, net of investments

- **Upper limits on fixed interest rate exposure**.
  This identifies a maximum limit on fixed interest rates loans, net of investments.

- **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 10 – Activity Limit Indicators

Interest rate Exposures		
	Upper	
Limits on fixed interest rates based on net debt	100%	
Limits on variable interest rates based on net debt	30%	
Maturity Structure of fixed & variable interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	35%
5 years to 10 years	0%	35%
10 years and above	0%	80%
In any 10 year period above 10 years	0%	40%