

# Treasury Management Strategy 2019/20 Appendix 1- Annex 1

Cabinet

Date: 6<sup>th</sup> February 2019

## Annex 1 – The Capital Prudential Indicators 2019/20 – 2021/22

- 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

- 2.1 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. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure projections	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
General Fund Approved	197.8					
General Fund New		47.5	76.3	46.0	73.5	46.8
HRA Approved	63.4					
HRA Estimated New		15.4	26.3	31.9	16.2	16.5
<b>Total</b>	<b>261.2</b>	<b>62.9</b>	<b>102.6</b>	<b>77.9</b>	<b>89.8</b>	<b>63.4</b>

- 2.2 Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.
- 2.3 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2018 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent proposed approvals for Cabinet in February 2019. These represent total approvals, irrespective of funding source. Figures in the "HRA estimated new" represent the annual capital expenditure in the HRA maintenance programme.

### 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 its 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, PPP

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lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £49.6m (as at 1 April 2018) of such schemes within the CFR.

3.4 The Council is asked to approve the CFR projections below. Details of the Council's projections for actual external debt compared to the CFR are contained in the main Strategy. Note the figures are estimates, not commitments.

General Fund CFR Projections	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
CFR excl. PFI b/fwd. 1 Apr	296.9	311.5	342.4	365.1	388.4	400.3
PFI liabilities	51.3	49.6	47.6	45.5	43.1	40.4
<b>CFR incl. PFI</b>	<b>348.2</b>	<b>361.1</b>	<b>390.0</b>	<b>410.6</b>	<b>431.5</b>	<b>440.8</b>
Add Capital Expenditure funded through borrowing	16.1	32.6	24.5	25.9	16.0	1.1
Less NEV Developer s106	-	-	-	-	-	(70.3)
Less MRP (debt repayment)	(1.5)	(1.7)	(1.8)	(2.6)	(4.1)	(3.6)
Underlying Borrowing Requirement	311.5	342.4	365.1	388.4	400.3	327.5
PFI Liabilities	49.6	47.6	45.5	43.1	40.4	37.4
<b>CFR c/fwd. 31 Mar</b>	<b>361.1</b>	<b>390.0</b>	<b>410.6</b>	<b>431.5</b>	<b>440.8</b>	<b>365.0</b>
External Borrowing b/fwd. 1 Apr	(193.7)	(202.2)	(230.7)	(248.0)	(266.1)	(283.1)
Loan Maturities	11.5	1.5	12.7	12.0	13.0	4.7
New Loans	(20.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
<b>External Borrowing c/fwd. 31 Mar</b>	<b>(202.2)</b>	<b>(230.7)</b>	<b>(248.0)</b>	<b>(266.1)</b>	<b>(283.1)</b>	<b>(308.4)</b>
Under / (Over) Borrowing Under Borrowing (excluding PFI liabilities)	109.3	111.7	117.1	122.4	117.3	19.2
<i>Under borrowing as a % of Underlying Borrowing Requirement (excludes PFI)</i>	35%	33%	32%	31%	29%	6%
HRA Fund CFR Projections	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
CFR excl. PFI b/fwd. 1 Apr	114.0	109.0	104.0	109.6	120.6	115.6
<b>CFR incl. PFI</b>	<b>114.0</b>	<b>109.0</b>	<b>104.0</b>	<b>109.6</b>	<b>120.6</b>	<b>115.6</b>
Add Capital Expenditure funded through borrowing	-	-	10.6	15.9	-	-
Less MRP (debt repayment)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Underlying Borrowing Requirement	109.0	104.0	109.6	120.6	115.6	110.6
<b>CFR c/fwd. 31 Mar</b>	<b>109.0</b>	<b>104.0</b>	<b>109.6</b>	<b>120.6</b>	<b>115.6</b>	<b>110.6</b>
External Borrowing b/fwd. 1 Apr	(114.0)	(109.0)	(104.0)	(109.6)	(120.6)	(115.6)
Loan Maturities	5.0	5.0	5.0	5.0	5.0	5.0
New Loans	-	-	(10.6)	(15.9)	-	-
<b>External Borrowing c/fwd. 31 Mar</b>	<b>(109.0)</b>	<b>(104.0)</b>	<b>(109.6)</b>	<b>(120.6)</b>	<b>(115.6)</b>	<b>(110.6)</b>
Under / (Over) Borrowing	-	-	-	-	-	-

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](mailto:iburbidge@swindon.gov.uk)

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

Estimate of the ratio of financing costs (principal and interest) to net revenue stream						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
General Fund	8.1%	8.5%	8.7%	9.5%	10.8%	10.7%
HRA	39.4%	38.8%	40.1%	41.4%	40.3%	39.2%

## 5 Treasury Indicators: limits to borrowing activity

- 5.1 **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 (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.

Operational Boundary	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
CFR (borrowing requirement)	420.5	446.4	474.8	509.0	515.9	438.1
PFI liabilities	49.6	47.6	45.5	43.1	40.4	37.4
Uplift	20.0	20.0	20.0	20.0	20.0	20.0
<b>Total</b>	<b>490.1</b>	<b>514.1</b>	<b>540.3</b>	<b>572.0</b>	<b>576.3</b>	<b>495.5</b>

- 5.2 **The Authorised Limit for external borrowing.** A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a 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:

Authorised Limit	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Operational Limit	490.1	514.1	540.3	572.0	576.3	495.5

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Uplift	5.0	5.0	5.0	5.0	5.0	5.0
<b>Total</b>	<b>495.1</b>	<b>519.1</b>	<b>545.3</b>	<b>577.0</b>	<b>581.3</b>	<b>500.5</b>

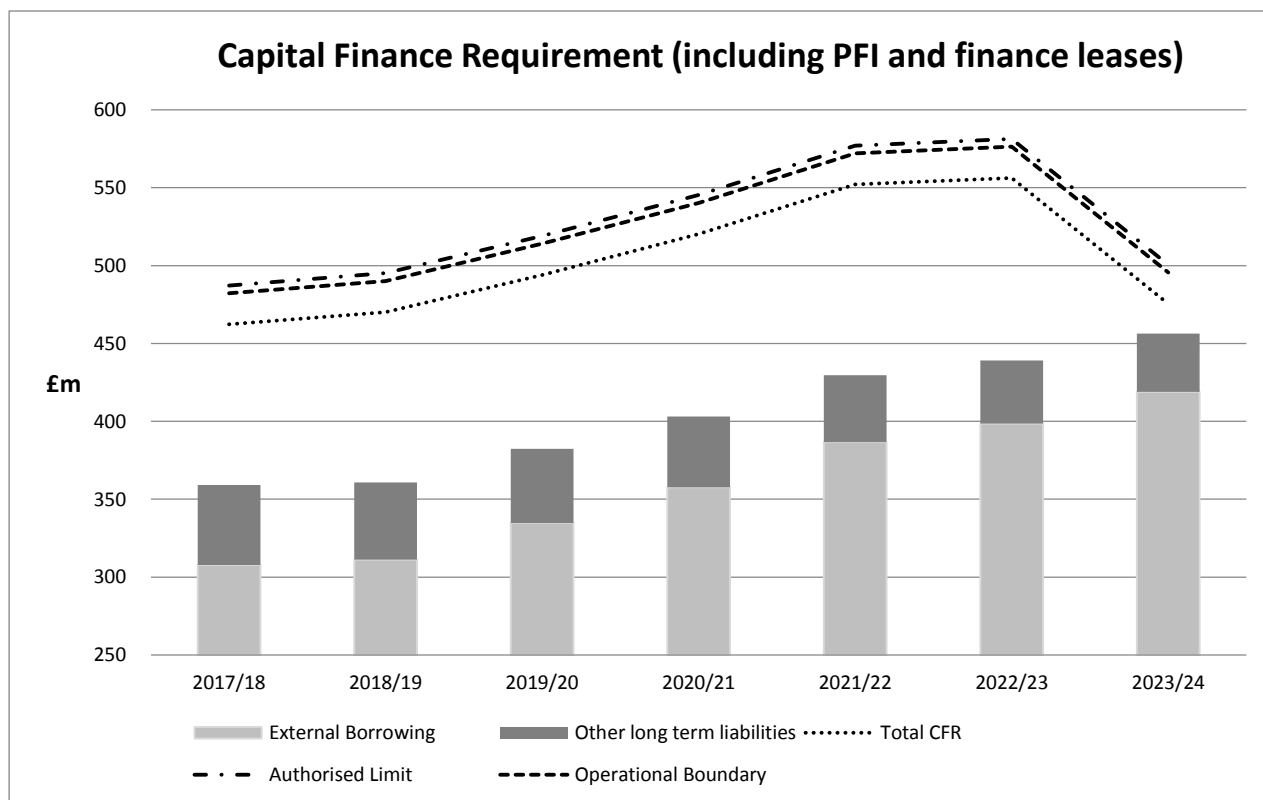
5.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The table below also includes the anticipated HRA investment balances which are anticipated to reduce over the next 4 years as the HRA uses its capital reserves to purchase property & new build schemes.

HRA Debt Limit	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
HRA debt cap	172.6*	Nil	Nil	Nil	Nil	Nil
HRA CFR 31st March	109.0	104.0	109.6	120.6	115.6	110.6
HRA headroom	63.6	N/A	N/A	N/A	N/A	N/A
HRA Average investment balance	21.5	15.0	5.0	5.0	5.0	5.0

Number of HRA dwellings	10,279	10,299	10,292	10,245	10,185	10,274
Debt per dwelling	£ 10,606	£ 10,100	£ 10,652	£ 11,767	£ 11,346	£ 10,761

*\*Abolition of HRA debt cap. In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18.*

5.4 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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## 6 Activity Limit Indicators

6.1 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;

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 interest rate borrowing 2019/20				
		Lower	Upper	
Under 12 months		0%	10%	
12 months to 2 years		0%	25%	
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%	

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

Maximum principal sums invested > 365 days				
2019/20	2020/21	2021/22	2022/23	2023/24
£20m	£20m	£20m	£20m	£20m