

Treasury Management Strategy 2014/15 Appendix 1- Annex 1

Audit Committee

Date: 4TH February 2014

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	2014/15 £'000	2015/16 £'000	2016/17 £'000
General Fund Approved	43,884		
General Fund Estimated New	22,882	4,514	405
HRA Approved	13,920	6,938	3,191
HRA Estimated New	17,830	16,803	16,803
Total	98,489	28,255	20,399

- 1.2 The figures in this indicator include an assessment of the level of re-phasing of the 2013/14 GF and HRA capital programmes.
- 1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR is simply a measure of the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (such as grant, S106 etc.) and is therefore funded from either external loans or from internal borrowing (the temporary use of balances, reserves and working capital)
- 1.4 It is essentially a measure of the Council's underlying need to borrow to fund capital expenditure. Any capital expenditure above, which is not immediately funded from existing resources, will increase the CFR. 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	2013/14	2014/15	2015/16	2016/17
CFR b/fwd, excl PFI	250,454	267,818	270,373	264,773
Est spend from borrowing	21,264	6,855	- 1,026	125
Less MRP	- 3,900	- 4,300	- 4,574	- 4,533
Sub-total	267,818	270,373	264,773	260,365
Add PFI Liability	47,003	46,294	45,632	44,810
Closing CFR incl PFI	314,821	316,667	310,405	305,175
HRA	2013/14	2014/15	2015/16	2016/17
Previous Years CFR	145,532	140,532	135,532	130,532
Current Years exp funded by borrowing				
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
Closing CFR	140,532	135,532	130,532	125,532
Total CFR	455,353	452,199	440,937	430,707

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.

Table 3 - The ratio of financing costs to net revenue stream.

	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
General Fund	5.43	6.95	8.11	9.13
HRA	33.60	39.27	38.16	36.62

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

	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Current Approved Programme	3.27	12.90	18.05	17.80
New Proposals	0.00	1.60	5.15	5.08

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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 maturing borrowing will be replaced, and a further £20m per annum will be taken out to reduce the current under-borrowed position.

Table 5 – Operational Boundary

	2014/15	2015/16	2016/17
Operational boundary £'000	Estimate	Estimate	Estimate
Borrowing	299,833	314,833	329,833
Other long term liabilities	46,294	45,632	44,810
Total	346,127	360,465	374,643

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

	2014/15	2015/16	2016/17
Authorised Limit £'000	Estimate	Estimate	Estimate
Borrowing	405,905	395,305	385,897
Other long term liabilities	51,294	50,632	49,810
Total	457,199	445,937	435,707

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:

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- 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	2014/15	2015/16	2016/17
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
Maturity Structure of fixed interest rate borrowing 2014/15			
	Lower	Upper	
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/;

Maximum principal sums invested > 364 days			
£m	2014/15	2015/16	2016/17
Principal sums invested > 364 days	Nil	Nil	Nil