

# Treasury Management Strategy 2015/16 Appendix 1- Annex 1

Cabinet

Date: 4<sup>th</sup> February 2015

## 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	2015/16 £'000	2016/17 £'000	2017/18 £'000
General Fund Approved	66,000	-	-
General Fund Estimated New	20,660	41,793	26,713
HRA Approved	15,000	-	-
HRA Estimated New	17,800	16,800	16,800
<b>Total</b>	<b>119,461</b>	<b>58,593</b>	<b>43,513</b>

- 1.2 The figures in this indicator (General Fund approved) include an assessment of the level of re-phasing of the 2014/15 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.

# Treasury Management Strategy 2015/16 Appendix 1- Annex 1

Cabinet

Date: 4<sup>th</sup> February 2015

<b>Table 2 Capital Financing Requirement</b>				
<b>General Fund</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
CFR b/fwd	270,575	285,623	290,822	295,917
Spend from borrowing	19,548	10,000	10,000	10,000
Less MRP	- 4,500	- 4,801	- 4,905	- 5,007
Sub-total	285,623	290,822	295,917	300,910
Add PFI Liability	55,541	54,156	52,810	51,280
Closing CFR incl PFI	341,164	344,978	348,727	352,190
<b>HRA</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
CFR b/fwd	140,532	135,532	130,532	135,532
Spend from borrowing	-	-	10,000	20,000
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
Closing CFR	135,532	130,532	135,532	150,532
<b>Total CFR</b>	<b>476,696</b>	<b>475,510</b>	<b>484,259</b>	<b>502,722</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. Table 4 calculates the impact of new approvals funded from borrowing on the tax payer, based on approvals required in the February Cabinet Report.

<b>Table 3 - Estimate of the ratio of financing costs to net revenue stream</b>				
	<b>14/15</b>	<b>15/16</b>	<b>17/18</b>	<b>18/19</b>
General Fund	10.1%	11.1%	12.0%	12.6%
HRA	39.0%	38.2%	38.1%	37.4%

# Treasury Management Strategy 2015/16 Appendix 1- Annex 1

Cabinet

Date: 4<sup>th</sup> February 2015

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

	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Current Approved Programme	5.16	15.90	15.67	15.45
New Proposals	0.00	0.52	1.60	1.58

## 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 introduced of £115m (net of maturing debt) over the next 3 years (£13m, £44m, £45m). The boundary also includes a further contingency of £20m.

**Table 5 - Operational Boundary**

Op Boundary	15/16	16/17	17/18
Debt	288,557	332,056	390,555
Other Long Term Liabilities	54,156	52,810	51,280
<b>Total</b>	<b>342,713</b>	<b>384,866</b>	<b>441,835</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**

Authorised Limit for External Debt	15/16	16/17	17/18
Borrowing	421,354	431,449	451,442
Other Long Term Liabilities	59,156	57,810	56,280
<b>TOTAL</b>	<b>480,510</b>	<b>489,259</b>	<b>507,722</b>

# Treasury Management Strategy 2015/16 Appendix 1- Annex 1

Cabinet

Date: 4<sup>th</sup> February 2015

## 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	2015/16	2016/17	2017/18
<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 2014/15</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; 364 days</b>			
£m	2015/16	2016/17	2017/18

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# Treasury Management Strategy 2015/16 Appendix 1- Annex 1

**Cabinet**

**Date:** 4<sup>th</sup> February 2015

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Principal sums invested > 364 days	£20m	£20m	£20m
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