

Treasury Management Strategy 2016/17 Appendix 1- Annex 1

Cabinet

Date: 16th March 2016

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	2018/19 £'000
General Fund Approved	90,570			
General Fund New		8,951	7,587	7,587
HRA Approved	36,547			
HRA Estimated New		15,700	15,700	15,700
Total	127,117	24,651	23,287	23,287

1.2 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2015 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent approvals at Cabinet in February 2016 for 2016/17 and 2017/18, and an estimate for 2018/19 assumed at the same level as 2017/18. These represent total approvals, irrespective of funding source.

1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR represents the total long term borrowing requirement (ie 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.

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Table 2 Capital Financing Requirement				
General Fund	15/16	16/17	17/18	18/19
	£'000's			
CFR b/fwd	265,380	268,720	274,321	271,768
Spend from borrowing	8,217	10,608	2,614	2,614
Less MRP	- 4,877	- 5,006	- 5,167	- 5,215
Sub-total	268,720	274,321	271,768	269,168
Add PFI Liability	52,810	51,280	49,555	47,632
Closing CFR incl PFI	321,530	325,601	321,323	316,800
HRA	15/16	16/17	17/18	18/19
CFR b/fwd	135,532	130,532	125,532	120,532
Spend from borrowing	-	-	-	-
Less MRP	- 5,000	- 5,000	- 5,000	- 5,000
Closing CFR	130,532	125,532	120,532	115,532
Total CFR	452,062	451,133	441,855	432,332

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				
	15/16	16/17	17/18	18/19
General Fund	10.0%	11.0%	11.3%	11.5%
HRA	38.0%	38.0%	37.9%	37.9%

- 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 2018/19 estimate is based on the assumption that approvals are at the same level as 2017/18.

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

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Current Approved Programme	£4.31	£13.19	£13.01	£12.83
New Proposals	Nil	£0.60	£2.51	£4.49

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

Op Boundary	16/17	17/18	18/19
Debt	343,562	362,061	370,560
Other Long Term Liabilities	51,280	49,555	47,632
Total	394,842	411,616	418,192

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	16/17	17/18	18/19
Borrowing	383,420	375,867	365,652
Other Long Term Liabilities	56,280	54,555	52,632
TOTAL	439,700	430,422	418,284

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3.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2015/16 Estimate £'000's	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt cap	172,600	172,600	172,600	172,600
HRA CFR 31 st March	130,532	125,532	120,532	115,532
HRA headroom	42,068	47,068	52,068	57,068

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	2016/17	2017/18	2018/19
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 2016/17			
	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%	

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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	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£20m	£20m	£20m