

The Capital Prudential and Treasury Indicators 2019/20 – 2022/23

1. Introduction

- 1.1 The Local Government Act 2003 requires a Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the Council's capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. It is also essential that, within the Council, there is an understanding of the risks involved and there is sufficient risk management undertaken for each investment undertaken.
- 1.2 The Prudential Code was revised in 2017 with the main changes being the inclusion of the Capital Strategy requirements and the removal of some indicators. To demonstrate the Council has met these objectives, the Prudential Code sets out a number of indicators that are monitored each year. These indicators are outlined in this report.
- 1.3 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist members overview and confirm capital expenditure plans. Capital expenditure is a summary of the Council's capital expenditure plans, both agreed previously and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts in Table 1:

Table 1: Capital Expenditure Forecast 2018/19 to 2022/23

Capital expenditure	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Care & Support	1,805	400	400	400	0
Community Solutions	349	0	0	0	0
Core	2,652	2,195	2,122	0	0
Education, Youth & Childcare	53,572	41,641	12,621	7,425	0
Enforcement	1,314	911	300	0	0
Culture, Heritage & Recreation	6,261	1,900	940	300	155
Investment Strategy	58,129	1,000	0	0	0
Growth & Homes & Regeneration	38,160	4,216	300	300	300
My Place	6,496	4,000	0	0	0
Public Realm	935	3,125	50	50	0
SDI Commissioning	3,190	480	0	0	0
Investment and Acquisition Strategy	13,749	92,360	213,930	146,269	(39,617)
Transformation	7,793	400	350	0	0
HRA	90,352	69,180	58,710	58,510	58,700
Finance Lease & PFI Additions	96	112	144	184	201
Corporate Borrowing	133,036	110,432	217,837	146,764	(39,317)
Approved Capital Programme	284,758	221,808	289,723	213,254	19,538
Financed by:					
Capital Grants	60,307	41,796	12,776	7,580	155
Section 106	0	0	0	0	0
Revenue Contributions	900	400	400	400	0
Capital Receipts	163	0	0	0	0
HRA Contributions	90,352	69,180	58,710	58,510	58,700
Sub-Total	151,722	111,376	71,886	66,490	58,855
Net financing need for the year	133,036	110,432	217,837	146,764	(39,317)

The Council's borrowing requirement

- 1.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the 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 underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.
- 1.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP), a statutory annual revenue charge, reduces the borrowing need in line with each asset's life. 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 and so the Council is not required to separately borrow for these schemes. Table 3 sets out the CFR until 2022/23 and are accumulative.
- 1.6 The Reside 1 costs are financed through an external lender via a Special Purpose Vehicle and is effectively self-financing.
- 1.7 The Council is asked to approve the CFR projections.

Table 3: Council's CFR 2018/19 to 2022/23

Capital expenditure	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Capital Financing Requirement					
CFR – General Fund	293,739	292,747	285,267	274,095	457,647
Reside 1 – William Street	90,212	89,783	89,337	88,873	89,356
Reside 2 – Abbey Rd / Weavers	100,504	104,721	104,721	104,721	104,721
CFR – Housing	278,472	278,472	278,472	278,472	278,472
Total CFR	762,927	765,723	757,797	746,161	930,196
Movement in CFR	87,688	2,796	(7,926)	(11,635)	184,034
Movement in CFR represented by					
Net financing need for the year	133,036	110,432	217,837	146,764	(39,317)
Less MRP and other financing movements	(10,202)	(11,206)	(11,871)	(12,168)	(10,863)
Movement in CFR	122,834	99,226	205,966	134,596	(50,180)

2. Affordability prudential indicators

- 2.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework 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 on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

General Fund Cost of Capital	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate
	£000	£000	£000
Net General Fund Base Budget	148,159	148,159	144,038
Cost of Capital			
GF Interest Payable	8,251	8,995	10,230
Treasury Income	(4,299)	(3,099)	(3,099)
Investment Income	(2,365)	(3,733)	(5,125)
Net Cost of Capital	1,587	2,163	2,006
Financing Cost to Net Revenue	1.07%	1.46%	1.39%

HRA Cost of Capital	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate
	£000	£000	£000
HRA Net Rental	42,290	45,880	46,140
HRA Interest Payable	9,692	10,059	10,059
Financing Cost to Net Revenue	22.92%	21.92%	21.80%

The estimates of financing costs include current commitments and the proposals in this budget report.

b. HRA ratios

	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate
	£000	£000	£000
HRA debt £m	278,472	278,472	278,472
Number of HRA dwellings	17,148	16,928	16,708
Debt per dwelling £	16.2	16.5	16.7

3. Treasury indicator and limit for investments greater than 364 days.

- 3.1 The limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. They are based on the availability of funds at year end. The maximum principal sums invested greater than 364 days is high to allow the treasury section to manage the significant cashflows expected. The Council is asked to approve the treasury indicator and limit:

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Maximum principal sums invested > 364 days	350,000	250,000	200,000	200,000

4. Treasury Indicators: Limits to Borrowing Activity

- 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: identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure: similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing: gross limits to reduce the Council's exposure to large fixed rate sums requiring refinancing.

4.2 The Council is asked to approve the following treasury indicators and limits:

Interest rate exposures	2019/20	2020/21	2021/22
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
Limits on fixed interest rates:			
• Debt only	100%	100%	100%
• Investments only	90%	90%	90%
Limits on variable interest rates			
• Debt only	70%	70%	70%
• Investments only	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

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. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing. Given the uncertainty around the borrowing requirement resulting from the Council's IAS Programme, a margin has been included in these figures to reflect potential additional borrowing above the current CFR.

Operational boundary	2018/19	2019/20	2020/21	2021/22
	Approved	Estimate	Estimate	Estimate
	£'000s	£'000s	£'000s	£'000s
Borrowing	1,002	1,052	1,152	1,250

- 5.2 **The Authorised Limit for external borrowing** – this represents a control on the maximum level of borrowing, with a limit set, beyond which external borrowing is prohibited. This limit must be set or revised by the full Council. The limit set includes a margin for borrowing to fund the Council's property investments.

It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is also a 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
	Approved	Estimate	Estimate	Estimate
	£'000s	£'000s	£'000s	£'000s
Borrowing	1,102	1,152	1,252	1,352

- 5.3 **HRA CFR** – with the proposed removal of the HRA debt limit the HRA CFR will be reviewed. The figures below are based on the previous debt limit:

HRA Debt	2018/19	2019/20	2020/21	2021/22
	Approved	Estimate	Estimate	Estimate
	£'000s	£'000s	£'000s	£'000s
Total	277,649	277,649	291,599*	291,599*

* The HRA debt cap was set at £277.649m. After the Council was given approval to exceed this by £3.2m and by a further £10.75m, the potential total cap is £291.599m onwards from 2020/21.