

Treasury Management and Prudential Indicators 2018/19 – 2020/21**1. Introduction**

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 capital investment plans of local authorities 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.

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. The changes are reflected in this Prudential Indicators report and in the Capital and Borrowing Strategy (appendix 2).

To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out a number of indicators that must be set and monitored each year. These indicators are outlined in this report.

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 those agreed previously, and those forming part of this budget cycle.

Currently the Council is going through a period of significant investment and regeneration, with the Investment and Acquisitions Strategy (IAS) agreed to establish the framework for the capital expenditure. Be First has also been appointed to drive through the Council's ambitious regeneration programme, with the aim of speeding up the planning and investment process.

Members are asked to be aware that the estimates in the Capital Expenditure Forecast for 2018/19 to 2020/21 only include the capital expenditure that has been agreed by Cabinet. As such this will likely change significantly as the schemes within the IAS are formally agreed. An updated Capital Expenditure Forecast will be brought for Member approval as part of the Treasury Management Mid-Year Review report to reflect any agreements that are made after this report.

Part of the Capital Expenditure includes the financing of Reside 2 (Abbey Road 2 and Gascoigne East regeneration). Funding of Reside 2 is from a loan from the European Investment Bank (EIB). Abbey Road 2 is now being let and is bringing in income, which will be used to repay the loan and interest to the EIB as well as provide significant net cash inflows into the Council. Gascoigne East will be operational in 2018. Members are asked to approve the capital expenditure forecasts in Table 1:

Table 1: Capital Expenditure Forecast 2018/19 to 2020/21

Capital expenditure	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Service Development & Integration	67,191	0	0	0	0
Customer, Com. & Service Delivery	7,587	0	0	0	0
Finance & Investment	25,151	0	0	0	0
Growth & Homes	20,851	0	0	0	0
Be First	0	1,978	477	0	0
Care & Support	0	1,791	400	400	400
Community Solutions	0	4,330	1,720	400	350
Core	0	8,302	100	438	172
Customer Access & Technology	0	4,359	0	0	0
Education, Youth & Childcare	0	25,075	32,741	0	0
Enforcement	0	10,170	5,247	4,484	40
Culture, Heritage & Recreation	0	4,305	3,836	550	600
Investment Strategy	0	482	31,125	0	0
Growth & Homes & Regeneration	0	67,664	65,177	3,916	0
My Place	0	1,209	0	0	0
Public Realm	0	1,080	706	205	195
SDI Commissioning	0	4,459	1,112	480	0
Traded Services	0	517	0	0	0
HRA	57,391	90,719	82,730	57,960	56,000
Finance Lease & PFI Additions	69	88	96	112	144
Approved Capital Programme	178,241	226,528	225,467	68,945	57,901
Funded by Corporate Borrowing	41,650	81,620	104,821	10,185	1,151

Table 2 summarises these capital expenditure plans, identifying if the spend is financed by capital or revenue resources, with any shortfall funded by borrowing.

Table 2: Capital Expenditure Financing Plans 2018/19 – 2020/21

Capital expenditure	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
General Fund	120,849	135,809	142,738	10,985	1,901
HRA	57,391	90,719	82,730	57,960	56,000
Total	178,241	226,528	225,467	68,945	57,901
Financed by:					
Capital Grants	81,333	38,415	34,707	0	0
Section 106	43	0	0	0	0
Revenue Contributions	860	990	400	400	400
Capital Receipts	13,687	25,698	2,809	400	350
HRA Contributions	40,668	79,804	82,730	57,960	56,000
Sub-Total	136,591	144,908	120,646	58,760	56,750
Net financing need for the year	41,650	81,620	104,821	10,185	1,151

The Council's borrowing requirement (CFR)

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.

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 assets 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 2020/21 and are accumulative.

The Reside 1 costs are financed through an external lender via a Special Purpose Vehicle and is effectively self-financing.

The Council is asked to approve the CFR projections.

Table 3: Council's CFR 2016/17 – 2020/21

Capital expenditure	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Financing Requirement	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
CFR – General Fund	223,979	258,275	316,520	309,817	296,776
Reside 1	91,021	90,624	90,212	89,783	89,337
Reside 2	26,718	64,944	100,504	104,721	104,721
CFR – Housing	278,472	278,472	278,472	278,472	278,472
Total CFR	620,190	692,315	785,708	782,793	769,306
Movement in CFR	33,139	72,125	93,393	(2,915)	(13,487)
Net financing need	41,650	81,620	104,821	10,185	1,151
Less MRP & financing movements	(8,511)	(9,495)	(11,428)	(13,099)	(14,638)
Movement in CFR	33,139	72,125	93,393	(2,915)	(13,487)

2. Treasury indicator and limit for investments greater than 365 days.

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 yearend. The maximum principal sums invested greater than 364 days is high to allow the treasury section to manage the significant cashflows expected as a result of the Council's AThe Council is asked to approve the treasury indicator and limit:

£'000s	2017/18	2018/19	2019/20	2020/21
Maximum principal sums invested > 365 days	250,000	250,000	200,000	200,000

3. Treasury Indicators: Limits to Borrowing Activity

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: is 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.

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

Interest rate exposures	2018/19	2019/20	2020/21
	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 2018/19		
	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 2018/19		
	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%

4. Treasury Indicators: Limits to Borrowing Activity

- 4.1 **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	2017/18	2018/19	2019/20	2020/21
£'000s	Approved	Estimate	Estimate	Estimate
Borrowing	752	1,002	1,152	1,202

- 4.2 **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	2017/18	2018/19	2019/20	2020/21
£'000s	Approved	Estimate	Estimate	Estimate
Borrowing	902	1,102	1,202	1,302

- 4.3 **HRA CFR Cap** - the Council is also limited to a maximum HRA CFR through the HRA self financing regime. This limit is currently:

HRA Debt Cap	2017/18	2018/19	2019/20	2020/21
£'000s	Approved	Estimate	Estimate	Estimate
Total	277.649	277.649	291,599*	291,599*

* The HRA debt cap is currently set at £277.649m, however the Council has been given approval from the Department for Communities & Local Government, to exceed this by £3.2m and by a further £10.75m, making the potential total cap of £291,599 onwards from 2019/20.