Appendix D - Treasury Management Strategy – Prudential Indicators – Outturn 2018/2019

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

(a) capital expenditure plans are affordable;
(b) all external borrowing and other long term liabilities are within prudent and sustainable levels;
(c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the forthcoming financial year and at least the following two financial years. The Council has set out indicators for the next five financial years in line with setting a fiveyear budget. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy.

The outturn for the Prudential Indicators for the financial year are detailed below. The indicators include the Invest to Save scheme. The costs of borrowing associated with these schemes will be offset by the income or savings generated by these projects.

The updated 2018/19 Prudential Indicators are shown below and the Council's performance to date against them. All performance is within the limits.

1. Indicator 1: Capital Expenditure

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.

Capital Expenditure	**2018/19 Indicator £m**	**2018/19 Actual £m**
Capital Expenditure	101.3	94.2
Invest to Save	19.8	1.7
Total	**121.1**	**95.9**

The outturn is lower than the MTFS indicator due to a number of large projects across all directorates have being reprofiled to more accurately reflect the spending over future years and other projects were removed following an enhanced scrutiny process linking to the development of the 2019/20 MTFS. The Invest to Save projects have been reduced over the next few years due to no planned expenditure but does not impact the Council's budgets as it is for schemes that must cover the cost of borrowing and minimum revenue provision (MRP) from either income generation or from generated savings.

2. Indicator 2: Capital Financing Requirement (CFR)

The CFR measures the Council's underlying need to borrow money in the long term for capital purposes. Any capital expenditure which has not immediately been paid for will increase the CFR.

Capital Financing Requirement	**2018/19 Indicator £m**	**2018/19 Actual £m**
CFR b/fwd	540.1	540.1
Underlying Need to Borrow	64.7	35.6
Underlying Need to Borrow - Invest to Save	1.5	1.7

Total CFR C/fwd	**606.3**	**577.4**

3. Indicator 3: Actuals and Estimates of the Ratio of Financing Costs to Net Revenue Budget

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

The final position for this indicator, 3.9% is a result of the capital receipts being used to repay the principal being greater than originally budgeted due to 'saving' proposals identified in the 2019/20 MTFS being applied earlier as reflected in the updated MRP policy.

Ratio of net financing costs to net revenue stream	**2018/19 Indicator**	**2018/19 Actual**
Total Ratio	6.4%	3.9%

4. Indicator 4: Proportion of Gross Debt to the Capital Financing Requirement (CFR)

This indicator shows the proportion of the Council's external borrowings (Gross Debt) against the CFR. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Proportion of Gross Debt to the CFR	**2018/19 Indicator £m**	**2018/19 Actual £m**
CFR	606.3	577.4
Gross Debt (inc PFI & Leases)	522.7	507.2
% of Gross Debt to CFR	**86.2%**	**87.8%**

This indicator shows that the Council maintained an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement (CFR)), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used. This strategy was prudent as investment returns were low and counterparty risk was still an issue that needed to be considered.

5. Indicator 5: The Operational Boundary

The Operational Boundary is a measure of the day to day likely borrowing for the Council. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

This indicator takes into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicator provides flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure.

Operational Boundary	**2018/19 Indicator £m**	**2018/19 Actual £m**
Borrowing	573.1	457.6

Other Liabilities (PFI & Leases)	52.6	49.6
Total Operational Boundary	**625.7**	**507.2**

6. Indicator 6: The Authorised Limit

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year.

The limit also incorporates margins to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

Authorised Limit	**2017/18 Indicator £m**	**2017/18 Actual £m**
Borrowing	723.4	457.6
Other Liabilities (PFI & Leases)	52.6	49.6
Total Authorised Limit	**776.0**	**507.2**

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year. The actual position is lower than the indicator as the Council does not currently anticipate borrowing in advance of need due to the additional cost of holding the funds until required.

7. Indicator 7: Fixed Interest rate exposure

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the majority of borrowing is at fixed rate which provides budget certainty with 100% of borrowing being at fixed rate. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	**2018/19 Indicator £m**	**2018/19 Actual £m**
Upper Limit	761.0	457.6
% of fixed interest rate exposure	100%	100%

8. Indicator 8: Variable interest rate exposure

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing (CFR). The limit is expressed as the value of total borrowing less investments

Upper limit for variable rate exposure	2018/19 Indicator £m	2018/19 Actual £m
Upper Limit	190.3	0.0
% of variable interest rate exposure	25%	0%

The indicator is zero due to the borrowing strategy of borrowing only at a fixed interest rate in an economic climate of volatile interest rates. Borrowing at fixed interest rates provides budget certainty for the Council.

9. Indicator 9: Maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The borrowing that the Council has actually taken is £457.6m (shown in the indicator below).

Period	Upper Limit Indicator	Actual Borrowing	Actual Borrowing £m
Under 12 months*	40%	14%	65.5
1 – 2 years	40%	6%	27.0
2 – 5 years	80%	3%	12.1
5 – 10 years	80%	5%	20.7
Over 10 years	100%	72%	332.3
		Total Borrowing	**457.6**

** The borrowing for under 12 months includes £17.5m of Lenders Option Borrowers Option (LOBO) loans. Although the loans are due to mature in 23-35 years' time, they are classed as loans repayable within the financial year due to LOBO's having a call-in date every six months.*

10. Indicator 10: Total Investments for periods longer than 364 days

Authorities are able to invest for longer than 364 days; this can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs.

This indicator reflects the Council's current lending policy of keeping investments short term for liquidity purposes. The Council has used its cash balances as an alternative to new borrowing and does not have the available cash balances to invest for long periods**.**

	2018/19 Indicator £m	2018/19 Actual £m
Principal sums invested >364 days	0.0	0.0