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Dear Member

County Council Meeting 16 July 2015

Please find attached an amended Appendix for Item 6 on the County Council agenda for tomorrow. This replaces the Appendix printed in the Blue Book and printed copies will produced for attendees on the day.

Agenda Item		Page No
6	**ANNUAL TREASURY MANAGEMENT STRATEGY** To agree the annual Treasury Management Strategy.	**3 - 12**

Yours sincerely

Sara Turnbull
Head of Member Services

Agenda Item 6 Appendix 1

PRUDENTIAL INDICATORS FOR MTP 2015/16 to 2017/18

1. BACKGROUND

1.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

1.2. Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

1.3. The purpose of this report is to update and revise the indicators approved by Council last year contained within the proposed MTP for 2015/16 to 2017/18. The report describes the purpose of each of the indicators and the proposed values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place throughout the year and a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

2. CAPITAL EXPENDITURE INDICATORS

2.1. CAPITAL EXPENDITURE

This indicator is required to inform the Council of capital spending plans for the next three years. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

The estimates of capital expenditure to be incurred for the current and future years is summarised below:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Approved Capital programme	£000	88,491	71,294	65,654	233,053	30,100
EfW technical adjustment*	£000	-	79,618	64,325	-180,000	-
Estimates of capital expenditure	£000	88,491	150,912	129,979	53,053	30,100

*Actual expenditure and future year's budgets are presented after a technical adjustment for the EfW plant as an asset under construction. As a result the estimate of capital expenditure is different to the Council approved capital programme which incorporates the EfW plant on the basis of when payment falls due. £36,057k has previously been reported in 2013/14 giving an overall total estimated expenditure of £180m.

The capital outturn total of £71,294k was £17,197k less than the revised estimate as at December 2014. The main variances were:

- **Health and Wellbeing -** Slippage of £4.7m due to delays in the Day Care scheme permissions so will be over a time frame greater than originally envisaged
- **Education and Skills** – Largely Misbourne School due to planning delays and the Temporary Classrooms block.
- **Unreleased variance** of £11.3m through schemes not being ready to progress through the Gateway process.

The estimate of capital expenditure for 2015/16 to 2017/18 reflects the Council approved capital programme excluding slippage. In 2016/17 the programme includes an allowance for the Energy from Waste plant, which will be supported in part through prudential borrowing.

2.2. CAPITAL FINANCING REQUIREMENT

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 5.3). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Estimates of capital financing requirement (CFR)	£000	317,161	319,334	325,887	317,505	307,013

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council. The profile above reflects cumulative prudential borrowing of £115.675m in 2014/15 and £132.5m in 2015/16, in respect of the Energy from Waste (EfW) Project.

The Council, as the accountable body on behalf of the LEP, is also supporting the forward funding of Aylesbury Eastern Link road. It is anticipated that £36m will be borrowed from the Public Works Loan Board (see indicator 3.1) by 2015/16 to support this development. This will be recognised in the capital financing requirement at the point that the assets or roads are adopted by the Council to the extent that assets are not funded through developer contributions. This is not currently shown in the figures above as the timescales for completion are not yet known and are estimated to be outside of the current 3-year period.

AFFORDABILITY INDICATORS

2.3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Purpose of the Indicator

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Estimates of ratio of financing costs to net revenue stream	%	6.0%	6.0%	5.4%	6.5%	6.3%

2.4. ESTIMATES OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

This is a key affordability indicator that demonstrates the incremental effect of planned capital expenditure and hence any increased or decreased borrowing, on Council Tax.

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Estimates of the incremental impact of capital investment decisions on Council Tax	£ per Band D equivalent	-£1.19	-£1.19	-£1.67	-£6.40	-£12.48
	%	-0.11%	-0.11%	-0.15%	-0.56%	-1.08%

The delivery of a number of projects within the capital programme including the replacement of Street Lamps with more efficient equipment, introduction of bio-mass boilers and rationalisation of premises will result in revenue savings. In addition a net saving is forecast in relation to the Energy from Waste project.

3. FINANCIAL PRUDENCE INDICATOR

3.1. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

The figures for 2015/16 onwards are based on estimates:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Gross Borrowing	£000	195,000	190,714	220,000	225,000	225,000
Capital Financing Requirement	£000	317,161	319,334	325,887	317,505	307,013

The Council is committed to building an EfW plant. This may require additional borrowing during 2016/17, although in practice much of this may be financed through a combination of earmarked reserves and current cash investments. The gross borrowing indicator assumes borrowing £15m per annum in advance during 2015/16 and a further £15m during 2016/17. The need for borrowing in advance will be reviewed.

The indicator also includes £36m in 2015/16 borrowed on behalf of the Buckinghamshire Thames Valley Local Enterprise Partnership (BTVLEP) for Aylesbury Eastern Link Road. HM Treasury has agreed that the LEP can access the PWLB Project Rate at a discount of 40 basis points below the standard PWLB rate, the County Council will arrange the loan and pay the interest to the PWLB on behalf of the LEP, the LEP will reimburse the costs incurred to the County Council so that the loan is cost neutral to the County Council.

4. TREASURY AND EXTERNAL DEBT INDICATORS

4.1. AUTHORISED LIMIT FOR EXTERNAL DEBT

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Authorised limit (for borrowing) *	£000	250,000	250,000	270,000	320,000	320,000
Authorised limit (for other long term liabilities) *	£000	150,000	150,000	200,000	15,000	15,000
Authorised limit (for total external debt) *	£000	400,000	400,000	470,000	335,000	335,000

* These limits can only be changed with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements.

Accounting for the Energy from Waste Plant

Construction commenced on site on 11 September 2013. Technical accounting rules require the Council to recognise an asset under construction and a corresponding PFI-equivalent liability for the work certified to date and forecast under the project. The liability is included in the 'other long-term liabilities' line.

Actual total liabilities are shown in Indicator 4.2 Operational Boundary for External Debt.

The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Director of Assurance will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit.

4.2. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Operational boundary (for borrowing)	£000	210,000	210,000	230,000	270,000	270,000
Operational boundary (for other long term liabilities)	£000	130,000	130,000	140,000	6,500	6,500
Operational boundary (for total external debt)	£000	340,000	340,000	370,000	276,500	276,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice documents. It will be reviewed on an on-going basis.

4.3. ACTUAL EXTERNAL DEBT

This is a factual indicator showing actual external debt for the previous financial year.

The actual external borrowing as at 31 March 2015 was £190.7m includes £1.5m accrued interest. During 2014/15 £11.7m of debt was repaid to the PWLB.

5. TREASURY MANAGEMENT INDICATORS

The prudential code links with the existing CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicators consist of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

5.1 SECURITY AVERAGE CREDIT RATING

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

Security Average Credit Rating	Actual / Target
Portfolio Average Credit Rating	AA / A+ or above

For the purpose of this indicator, local authorities which are unrated are assumed to hold an AAA rating.

5.2 HAS THE COUNCIL ADOPTED THE CIPFA TREASURY MANAGEMENT CODE?

The Council has adopted the Code. In line with the Code the Treasury Strategy for 2015/16 is reported to Regulatory and Audit Committee and Council.

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes

5.3 UPPER LIMIT OF FIXED RATE BORROWING FOR THE 3 YEARS TO 2017/18

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Fixed interest rate exposure - upper limit *	£000	210,000	96,196	230,000	270,000	270,000

* Any breach of these limits will be reported to the full Council

5.4 UPPER LIMIT OF VARIABLE RATE BORROWING FOR THE 3 YEARS TO 2017/18

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount will be:

Indicator	Unit	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Variable interest rate exposure - upper limit *	£000	110,000	89,732	80,000	80,000	95,000

* Any breach of these limits will be reported to the full Council

The fourth element requires limits to be set for fixed rate borrowing.

5.5 MATURITY STRUCTURE OF FIXED RATE BORROWING FOR 2014/15 – 2017/18

This Indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of the fixed borrowing will be:

Maturity Structure of Fixed Rate Borrowing	Revised Estimate 2014/15		Actual 2014/15		2015/16		2016/17		2017/18	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	50%	0%	40%	0%	45%	0%	45%	0%	55%	0%
12 months and within 24 months	35%	0%	32%	0%	45%	0%	50%	0%	45%	0%
24 months and within 5 years	55%	0%	54%	0%	55%	0%	55%	0%	55%	0%
5 years and within 10 years	55%	0%	53%	0%	55%	0%	60%	0%	60%	0%
10 years and above	100%	0%	60%	0%	100%	20%	100%	20%	100%	20%

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

5.6 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Indicator	Revised Estimate 2014/15	Actual 2014/15	2015/16	2016/17	2017/18
Total principal sums invested for periods longer than 364 days	£75m	£19.5m	£50m	£25m	£25m

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £50m in 2015/16 and £25m in 2016/17 to 2017/18. Cash balances are anticipated to be lower from 2016/17 onwards due to financing the EfW project.

6 CONCLUSION

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.