Appendix B – Treasury Indicators 1 April 2016 – 30 September 2016

Summary

Council approved the 2016/17 original prudential indicators at its meeting on 25th February 2016. This set various prudential indicators relating to capital expenditure, capital funding and external borrowing in line with the CIPFA Code of Treasury Management.

This report summarises:

The Capital Activity for the year and how this activity was financed

The impact on the Council's investments and

The reporting of the required prudential indicators

The Council's Capital Expenditure and Financing 2016/17

The Council undertakes capital expenditure on its fixed assets and also incurs expenditure on grants and other areas which are treated as capital expenditure for financing purposes.

These can be financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc) or if insufficient financing is available from those sources or a decision is taken not to use those resources, the expenditure will give rise to a borrowing need

The capital expenditure statement forms one of the required prudential indicators. The table below shows budgeted Capital Expenditure and Financing for 2015/16 as approved by Cabinet on 16 November 2015:

Table 1: Capital Expenditure and Financing of the Major Projects Programme

Indicator 1 Capital Expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Major Projects Expenditure	30.527	21.615	1.385	1.180
Financed by:				
Capital receipts	27.391	14.708	0.585	0.380
Capital grants and Contributions	1.922	6.907	0.800	0.800
Revenue (net of borrowing costs)	1.214	0.000	0.000	0.000
Net financing need for the year	**0.000**	**0.000**	**0.000**	**0.000**

Table 1 shows capital expenditure for the year of £21.615m. However as at 30 September 2016 £11.235m was forecast to be spent in the current financial year with the remainder being deferred to future years. Table 1 also may include elements of revenue expenditure that form part of major project schemes; however these are not of a financially material value.

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). It represents the cumulative 2016/17 and previous years' net capital expenditure which has not yet been funded by revenue nor other resources, but has been paid for by borrowing from internal existing cash balances.

The CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). This CFR can also be reduced by the application of additional capital resources such as capital receipts or charging more than the statutory revenue charge (MRP), through a Voluntary Revenue Provision (VRP)

The MRP policy is required to be approved by Council annually and this was approved for 2016/17 on 25th February 2016 by Council.

Table 2: Movement in the Council's Capital Financing Requirement (CFR)

Indicator 2 £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
CFR at year end	8.188	7.270	6.352	5.498
Movement in CFR	**-1.050**	**-0.918**	**-0.918**	**-0.854**

Net financing need for the year (above)	0.000	0.000	0.000	0.000
MRP/VRP and other financing movements	-1.050	-0.918	-0.918	-0.854
Movement in CFR	**-1.050**	**-0.918**	**-0.918**	**-0.854**

The Use of the Council's resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the available year end balances for each resource together with working capital.

Indicator 3 Year End Resources £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Fund balances				
Capital receipts	15.3	8.0	9.6	11.3
Revenue reserves	51.2	52.5	53.1	52.8
Red Kite Indemnity	(22.0)	(22.0)	(22.0)	(22.0)
Total Core Funds	**44.6**	**38.5**	**40.8**	**42.1**
Working Capital*	5	5	5	5
Borrowing net of CFR	-8.2	-7.3	-6.4	-5.5
Investments	**41.3**	**36.3**	**39.4**	**41.6**

***** Working capital balances shown are estimated year end; these may be higher at certain points during the year.

Affordability indicators

Ratio of financing costs to net revenue stream and effect on Council Tax.

The first indicator in this area is a measurement of the ratio of net financing costs to the net revenue stream of the authority in percentage terms. The financing costs include MRP, interest on finance leases (Waste Contract). The net revenue stream takes account of all government funding used to support the General Fund (RSG, Business Rates funding, Section 31 Grants and New Homes Bonus) as well as Council Tax income. The Estimate for 2015/16 is based on the approved Capital programme for the year as reported to Cabinet on 16 November 2015.

Indicator 4 %	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	3.12	3.65	4.52	3.88
Financing Costs (£m’s)	0.476	0.524	0.600	0.500
Net Revenue Stream (£m’s)	15.258	14.350	13.271	12.902

Estimates of the incremental impact of capital investment decisions on the Council Tax (Indicator 5) – This indicator identifies the revenue costs associated with the major projects programme (capital expenditure only). The Council's financial strategy is based on the premise that capital financing decisions have no impact on the revenue budget. Any surplus income is transferred to capital funds, and expenditure on the major projects programme is designed to ensure that it results in no capital financing costs that would impact on council tax levels.

Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

For the first of these the Council needs to ensure that its total borrowing net of investments, does not, except in the short term, exceed the total of the CFR plus the estimates of any additional CFR for the following two financial years. The Head of Finance and Commercial can confirm that the Council has complied with this indicator.

A second indicator relating to borrowing is the Operational Boundary for external debt. Whilst not a limit, it acts as guide towards the level of debt that may be reached during the year including overdraft and temporary borrowing that may be necessary pending asset sales. This was set at **£18m** for 2016/17. The Council has complied with this indicator from 1 April 2016 – 30 September 2016.

The third indicator acting as a control on borrowing activity is the Authorised Limit for External Debt. This is a limit beyond which external debt is prohibited, and this limit has to be set or revised by full Council. As with the Operational Boundary it includes bank overdrafts and temporary borrowing. This is the statutory limit determined under section 3 of the Local Government Act 2003. This limit was set at **£19m** for 2016/17 in respect of borrowing and again the Council has complied with this indicator for the first 6 months of 2016/17.

<u>Security: average credit rating</u>

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the average credit rating of its investment portfolio.

	Target	Actual to 30 September 2016	
Portfolio average credit rating	A	AA-	✓

For the purpose of this indicator unrated local authorities are assumed to hold a AA+ rating.

Liquidity: cash available within three months

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, with and without temporary borrowing.

	Target	Actual to 30 September 2016	
Minimum cash available without borrowing	£3m	£22.5	✓
Minimum cash available including borrowing*	£5m	£22.5	

* This is not applicable as the Council had no occasion to take any temporary borrowing.

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed were:

	Limit	Actual	
Upper limit on fixed rate exposures	£5m	£0m	✓
Upper limit on variable rate exposures	£5m	£0m	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. The actual figure is £0m because the Council is a net investor.

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The maturity structure of fixed rate borrowing was:

	Upper Limit	Lower Limit	Actual	
Under 12 months	100%	0%	0%	✓
12 months and within 24 months	100%	0%	0%	✓
24 months and within five years	100%	0%	0%	✓
Five years and within 10 years	100%	0%	0%	✓
10 years and above	100%	0%	0%	✓

The actual is zero because all the Council's borrowing was at variable rates.

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. The total principal sums invested to final maturities more than 364 days beyond the period end were:

	2016/17
Limit on principal invested beyond one year	£58m
Actual principal invested beyond one year	£9
	✓

Background papers: Treasury Management strategy
Working papers held in Accountancy