

Appendix 3

Treasury and Prudential Limits

1. Compliance with Treasury Limits

1.1 Liquidity

1.1.1 The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments by the next working day and within a rolling three month period, without additional borrowing.

1.1.2 During 2016/17 interest rates have relatively flat in the 12 month period and investments were kept on shorter duration in case rates increased. This resulted in the liquidity targets being exceeded as shown in table 1 below.

Table 1: Liquidity activity at 31/03/17

	Target £'m	Actual £'m
Total cash available by the next working day	5.000	6.920
Total cash available within 3 months	30.000	61.000

1.2 Interest Rate Exposures

1.2.1 This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed was:

Table 2: Interest rate exposure activity

	2016/17 %
Upper limit on fixed interest rate exposure	100.00
Actual	94.70
Upper limit on variable interest rate exposure	25.00
Actual	5.30

1.2.2 Having a larger share of fixed interest rate borrowing provides stability to the Authority's budget strategy by removing the risk of interest payments increasing should interest rates rise.

1.3 Maturity Structure of Borrowing

1.3.1 This indicator is set to control the Authority's exposure to refinancing risk. The approved upper and lower limits on the maturity structure of fixed rate borrowing were:

1.3.2 This table compared to Q4 report includes amendments made to the loans management system to bring PWLB loans principal to agree with PWLB reported figures to the Authority and the energy loans received from a third party.

Table 3: Loan maturity structure

	Upper %	Lower %	Actual %
Under 12 months	40.00	0	1.20
12 months and within 24 months	40.00	0	0
24 months and within 5 years	60.00	0	1.10
5 years and within 10 years	75.00	0	9.60
10 years and above	100.00	25.00	88.10

1.3.3 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.4 Principal Sums Invested for Periods Longer than 364 days

1.4.1 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end are:

Table 4: Investments for periods longer than 364 days

	31/3/2017 £'m	31/3/2018 £'m	31/3/2019 £'m
Limit on principal invested beyond year end	75	75	75
Actual	40	40	20

1.4.2 The £40m invested for greater than 364 days are with other local authorities or secured investments.

2. Compliance with Prudential Indicators

2.1.1 The Local Government Act 2003 requires the council to have regard to CIPFA's 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, sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2.1.2 As referred to in section 2 of the report, a fundamental review of the Authority's capital investment plans is being undertaken during 2017/18 to develop a 5 year capital programme from 2018/19 to 2023/24 to align with the Corporate Plan priorities. The programme will be developed to ensure that any future capital investment that is financed by further borrowing is affordable in revenue terms, prudent and sustainable.

2.2 Estimates of Capital Expenditure

2.2.1 The Authority's approved planned capital expenditure and financing are summarised as follows:

Table 5: Capital Expenditure

Capital Expenditure and Financing	2016/17 Revised £'m	2016/17 Actual £'m	2017/18 Estimate £'m	2018/19 Estimate £'m	2019/20 Estimate £'m
General Fund	66.303	68.287	102.069	61.831	53.771
HRA	17.193	19.827	60.570	39.955	33.441
Total Capital Expenditure	83.496	88.114	162.639	101.786	87.218
Capital Receipts	16.358	26.014	26.781	16.230	13.545
Government Grants	33.015	25.032	52.818	25.901	20.532
Reserves	0	0	26.114	7.129	3.035
Revenue	16.823	20.462	24.156	22.526	16.106
Net Financing Requirement	17.300	16.606	32.770	30.000	34.000

2.3 Estimates of Capital Financing Requirement (CFR)

2.3.1 The CFR measures the council's underlying need to borrow for a capital purpose.

Table 6: CFR

CFR	31/03/17 Estimate £'m	31/03/17 Actual £'m	31/03/18 Estimate £'m	31/03/19 Estimate £'m	31/03/20 Estimate £'m
General Fund	76.440	75.909	97.109	115.740	133.377
HRA	174.669	174.669	184.669	194.669	208.669
Total	251.109	250.578	282.403	310.409	342.046
Movement in CFR	16.100	15.406	31.200	28.006	31.637
Net Financing Need per table 5	17.300	16.606	32.770	30.000	34.000
Less MRP	1.200	1.200	1.570	1.994	2.363
Movement in CFR	16.100	15.406	31.200	28.006	31.637

2.3.2 As at 31 March 2017, the Budget Strategy assumes CFR will rise by £91.4m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment. However subject to the aforementioned review this figure may increase as additional programs are added.

2.4 Gross Debt and the CFR

2.4.1 So that medium term debt will only be used for a capital purpose, the council should ensure that external debt does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR requirement for the current and next two financial years. Table 7 illustrates this indicator has been met.

Table 7: Gross debt and the CFR

	31/03/17 Estimate £'m	31/03/17 Actual £'m	31/03/18 Estimate £'m	31/03/19 Estimate £'m	31/03/20 Estimate £'m
Long Term External Debt	211.573	211.573	211.205	210.838	256.470
CFR	251.203	250.578	282.403	310.409	342.046
Internal Borrowing	39.630	39.005	71.198	99.571	85.576

2.4.2 Total debt is expected to remain below the CFR during the forecast period. Whilst there are no commitments to increase long term debt over the next 3 years Once the ongoing review of the 5 year capital programme is completed for 2018/19, it may be necessary to increase long term external debt in 2019/20 when investment balances become depleted and internal borrowing is no longer available. In addition it may be necessary to bring forward external long term borrowing should there be an anticipated change in the future interest rate yield curve.

2.4.3 The actual debt levels are also monitored against the Operational Boundary and Authorised Limit for External Debt, below.

2.5 Operational Boundary for External Debt

2.5.1 The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 8: Operational Boundary

Operational Boundary Revised	2016/17 £m
Borrowing	258.700
Other long-term liabilities	2.000
Total	260.700
Actual Long Term Debt	211.573
Headroom	49.127

2.6 Authorised Limit for External Debt

2.6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 9: Authorised limit

Authorised Limit	2016/17 £m
Borrowing	284.600
Other long-term liabilities	2.000
Total Debt	286.600
Long Term Debt	211.573
Headroom	75.027

2.7 Ratio of Financing Costs to Net Revenue Stream

2.7.1 This ratio is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 10: Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Estimate %	2016/17 Actual %
General Fund	2.54	2.02	2.12
HRA	7.28	5.56	5.26

2.8 Incremental Impact of Capital Investment Decisions

2.8.1 This ratio is an indicator of affordability that shows the impact of capital investment decisions on council tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the new capital programme.

Table 11: Incremental Impact of Capital Investment funded by Borrowing

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2016/17 Actual £
General Fund - increase in annual band D Council Tax	7.75	7.52
HRA - increase in average weekly rents	3.46p	3.0p

3. Adoption of the CIPFA Treasury Management Code

3.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition.

4.0 HRA Limit on Indebtedness

4.1 The Authority's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Authority complied with this requirement as set out below

Table 12: HRA Limit on Indebtedness

HRA CFR Limit:	£209.003m				
	2016/17 Estimate £'m	2016/17 Actual £'m	2017/18 Estimate £'m	2018/19 Estimate £'m	2019/20 Estimate £'m
HRA CFR	174.669	174.669	184.669	194.669	208.669
Difference	34.334	34.334	24.334	14.334	0.334