## Prudential and Treasury Indicators 2014/15

### Capital Expenditure and Financing 2014/15

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need (though the timing of borrowing may be delayed through the application of cash balances held by the Council).

The actual capital expenditure forms one of the required prudential indicators and is shown in the table below.

| | 2013/14 Actual £m | 2014/15 Revised Budget £m | 2014/15 Actual £m |
|---|---|---|---|
| Total capital expenditure | 17 | 23 | 20 |

### Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's net debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2014/15 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been financed by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

**Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively the reserving of funds for repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. The Council's 2014/15 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2014/15 on 6th February 2014.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's CFR for the year represents a key prudential indicator analysed below. This includes PFI schemes on the balance sheet, which increase the Council's long term liabilities. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

| CFR (£m) | 31 March 2014 Actual | 31 March 2015 Revised Indicator | 31 March 2015 Actual |
|---|---|---|---|
| CFR at Year End | 136 | 135 | 135 |

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit presented at Appendix 1 to this report.

**Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2014/15 plus the expected changes to the CFR over 2015/16 and 2016/17. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

| CFR (£m) | 31 March 2014 Actual | 31 March 2015 Actual |
|---|---|---|
| Opening balance | 135.7 | 135.0 |
| Capital expenditure in year funded from borrowing | 3.9 | 4.9 |
| Minimum Revenue Provision | (4.6) | (4.6) |
| Repayment of Deferred Liabilities | 0 | 0 |
| **CFR at Year End** | **135.0** | **135.3** |
| **Net borrowing position** | **74.9** | **68.2** |

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. Borrowing levels were maintained well below the operational boundary throughout the year.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term liabilities net of investment income) against the net revenue stream.

| | 2014/15 |
|---|---|
| Authorised limit* | £231m |
| Maximum gross borrowing position | £146m |
| Operational boundary | £161m |
| Average gross borrowing position | £147m |
| Financing costs as a proportion of net revenue stream | 8.60% |

*The approved Authorise Limit allowed for the Energy from Waste PFI scheme which was not opened by 31st March 2015

**Treasury Indicators**:

**Maturity Structure of the fixed rate borrowing portfolio** - This indicator assists Authorities avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.

| | 31 March 2015 Actual | 31 March 2015 Proportion | 2014/15 Original Limits Upper-Lower |
|---|---|---|---|
| Up to 10 years | £19M | 14% | 5% - 50% |
| 10 to 20 years | £26M | 19% | 5% - 50% |
| 20 to 30 years | £35M | 25% | 10% - 60% |
| 30 to 40 years | £34M | 25% | 10% - 50% |
| Over 40 years | £24M | 17% | 0% - 50% |

**Principal sums invested for over 364 days** - The purpose of this indicator is to contain the Council's exposure to the possibility of losses that might arise as a result of it having to seek early repayment or redemption of principal sums invested.

| | 2013/14 Actual | 2014/15 Limit | 2014/15 Actual |
|---|---|---|---|
| Investments of 1 year and over | £15M | £45m | £27m |

**Exposure to Fixed and Variable Rates** - The Prudential Code requires the Council to set upper limits on its exposure to the effects of changes on interest rates. The exposure to fixed and variable rates was as follows:

| | 31 March 2014 Actual % | 2014/15 Upper Limits % | 31 March 2015 Actual % |
|---|---|---|---|
| Limits on fixed interest rates:<br>• Debt only<br>• Investments only | 100<br>36 | 100<br>80 | 100<br>52 |
| Limits on variable interest rates<br>• Debt only<br>• Investments only | 0<br>63 | 20<br>60 | 0<br>47 |