SOUTH RIBBLE BOROUGH COUNCIL
CABINET - 20 February 2017
Treasury Strategy 2017/18 to 2019/20

Prudential Indicators and Treasury Indicators 2017/18 to 2019/20

These tables were omitted from the report **Treasury Strategy 2017/18 to 2019/20**. All figures are derived from the proposed revenue budget and capital programme for 2017/18 to 2019/20. Proposed budgets had not been finalised at the time of writing the report.

Where appropriate, Prudential Indicators and Treasury Indicators for 2016/17 have been revised to reflect the forecast outturn for the revenue budget and capital programme.

Prudential Indicator 1 - Capital Expenditure

Table 1 summarises the latest estimates of capital expenditure, and the methods of financing the capital programme for 2016/17 to 2019/20. It shows separately the cost of capital works at Leisure Centres, undertaken by Serco on behalf of South Ribble Community Leisure Trust. Since the assets are owned by the Council, this has to be accounted for as a form of finance lease.

Table 1 – Capital Expenditure	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital expenditure under Leisure Contract – treated as a finance lease (affects the CFR see Prudential Indicator 2 below)	18	124	104	0
Capital expenditure incurred directly by the Council	2,630	4,404	4,762	2,379
Less Capital resources				
Capital receipts	(52)	(500)	(707)	(220)
Grants & contributions	(1,338)	(1,268)	(2,486)	(544)
Revenue and reserves	(990)	(1,666)	(1,271)	(410)
Unfinanced amount (affects the CFR see Prudential Indicator 2 below)	250	970	298	1,205

Prudential Indicator 2 – Capital Financing Requirement (CFR)

The CFR is a measure of the Council's indebtedness resulting from its capital programme. It increases when the Council incurs unfinanced (borrowing) capital expenditure or finance lease liabilities. Its importance lies in the fact that it results in a charge to the revenue account, either from the lessor to discharge his debt, or an internal charge to make provision to finance the expenditure (the Minimum Revenue Provision - MRP).

Table 2 – Capital Financing Requirement (CFR)	31/3/16 Actual £'000	31/3/17 Revised £'000	31/3/18 Estimate £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000
Actual or Estimated CFR	**5,902**	**5,146**	**5,222**	**4,555**	**5,357**
Reasons for the annual change in the CFR					
Additional finance lease liability		18	124	104	0
Unfinanced capital expenditure (as above)		250	970	298	1,205
Repayment of finance lease		(246)	(246)	(246)	(246)
Annual revenue charge (MRP)		(778)	(772)	(823)	(824)

Table 6 (Operational Boundary Prudential Indicator) presented below shows that no external borrowing to finance capital expenditure is currently planned in the period 2016/17 to 2019/20. The difference between the CFR and other long-term liabilities indicates the level of internal borrowing used to finance capital investment. The opportunity cost of using internal resources rather than external borrowing is the loss of interest that could have been earned had the cash been invested. However, the rate of interest payable on borrowing would be higher.

Prudential Indicator 3 – Ratio of financing costs to the net revenue stream

This indicator, presented as Table 3, shows the proportion of the Council's budget (i.e. the costs it has to meet from government grants and local taxation including the net local share of retained business rates), that is required to meet the costs associated with capital financing (interest and principal, net of interest receivable).

Table 3 – Ratio of financing costs to net revenue stream	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	**7.47**	**8.36**	**9.91**	**10.18**

The ratio is increasing largely as a result of the reduction in government grant funding within the net revenue stream total. However, currently there is uncertainty about the impact of 100% retention of business rates by local authorities, which is due to be implemented before the end of the current parliament. Any increase in the value of business rates retained by the council would help to offset the reduction in government funding, and therefore would tend to reduce this ratio.

Prudential Indicator 4 – Incremental impact of capital investment decisions on the band D Council Tax

Table 4 shows the cumulative effect on Council Tax levels of the changes between the capital programme reported in this strategy and the programme submitted a year ago. It has to be stressed that the complexity, and notional nature, of the calculations mean that the figures should only be treated as being indicative.

Table 4 – Impact of capital investment decisions on Band D Council Tax	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase/(decrease) in Band D charge	**2.41**	**(1.81)**	**2.52**	**6.69**

Borrowing and Investment Projections

The Council's borrowings and investment are inter-related. Table 5 details the expected changes in borrowings and cash available for investment, consistent with the capital and revenue budgets. No borrowing is currently envisaged in the period under review, as cash balances are expected to remain at an adequate level. It is unlikely that investment interest rates will exceed interest rates on borrowing for the foreseeable future, so there would be a "cost of carry" should any external borrowing become necessary. The Council would be paying more interest on the borrowing than it would earn on the investment of the cash funds available over and above those needed in the bank account to cover day to day transactions.

Table 5 – Borrowing and Investments	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	0	0	0	0
Less surplus cash available for investment	(31,000)	(25,000)	(20,000)	(17,500)
Net borrowing	**(31,000)**	**(25,000)**	**(20,000)**	**(17,500)**

Prudential Indicator 8 - The Operational Boundary for External Debt

The Council is required to set two limits on its external debt (i.e. the amounts it owes to lessors and any amounts it borrows directly). The first is the Operational Boundary. This should reflect the most likely, but not worst case scenario consistent with the Council's budget proposals.

As shown in Table 5, whilst the CFR (Prudential Indicator 2) is being temporarily financed from internal cash balances/cash flow it is not expected that additional external borrowings will be required in the years covered by this strategy. The proposed Operational Boundary Prudential Indicator, presented as Table 6, therefore reflects the expected leasing liabilities.

Table 6 – Operational Boundary	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowings	0	0	0	0
Other long-term liabilities	735	543	331	15
Operational boundary	**735**	**543**	**331**	**15**

Prudential Indicator 9 - The Authorised Limit

This is the second limit. It should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The proposed Authorised Limit Prudential Indicator is presented as Table 7.

Table 7 - Authorised Limit	2016/17 Revised £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowings	3,000	3,000	3,000	3,000
Other long-term liabilities	735	543	331	15
Authorised limit	**3,735**	**3,543**	**3,331**	**3,015**

Treasury Indicator 2 – Upper limit on fixed rate exposure

The Council is exposed to fixed rate interest on the finance lease liabilities. The maximum estimated exposure is based on the Operational Boundary (other long-term liabilities in Table 6). Treasury Indicator 2 is presented as Table 9.

Table 9 - Upper limit on fixed rate exposure	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Upper limit -	**0.74**	**0.54**	**0.33**	**0.02**

Treasury Indicator 4 – Total principal sums invested for greater than 364 days

It is not planned to make any investments for banks or buildings societies periods over 364 days. Such investments would be "non-specified", as explained in the Investment Strategy. However, because of the limited availability of suitable high credit quality banks and building societies as investment counterparties, **it is proposed that the maximum period for investments with UK local authorities should be increased to 2 years; that the limit per local authority should be no more than £5m; and that no more than £5m should be invested for greater than one year.**

Table 11 - Total principal sums invested for greater than 364 days	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
UK Government	0	0	0	0
UK Local Authorities	0	5	5	5
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
Money Market Funds	0	0	0	0
Total	**0**	**5**	**5**	**5**