

1. Treasury Management Indicators 2018-19

- 1.1 The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators relating to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk and are shown in the table below. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or transaction date if later and all other instruments are classed as variable. The majority of the Council's investments are less than 12 months and even though interest rates may be fixed for the investment duration these would be classed as variable. LOBO loans are variable interest rate loans, therefore, as the variable investments were in excess of total variable rate loans, the net principal is shown as negative in the table below.

The Section 151 Officer managed interest rate exposure between these limits during the year and as shown below the net borrowing position for fixed and variable rates was within the limits set.

No.	Interest Rate Exposure	TMS 2018-19 £m	Actual Outstanding 31-03-19 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2019	96.87	96.87
	Total Projected Principal Outstanding on Investments 31 March 2019	20.00	27.40
	Net Principal Outstanding	76.87	69.47
1.	Upper Limit on fixed interest rates (net principal) exposure	130.00	n/a
2.	Upper Limit on variable interest rates (net principal) exposure	50.00	n/a
	Fixed interest rate exposure (net principal) 31 March 2019		73.62
	Variable interest rate exposure (net principal) 31 March 2019		-4.15

- 1.2 A further indicator for treasury management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

No	Maturity structure of fixed rate borrowing during 2018-19	Upper limit %	Lower limit %	Actual 31-03-19 %
3.	Under 12 months	50	0	19.87
	12 months and within 24 months	25	0	-
	24 months and within 5 years	25	0	-
	5 years and within 10 years	50	0	13.91
	10 years and within 20 years	60	0	23.49
	20 years and above	100	40	42.73

The 19.87% in the table above relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in paragraph 4.1.3 of the main report. The Code requires the maturity of LOBO loans to be shown (even though the rate is variable) on the earliest date on which the lender can require payment, i.e. the next call date after 31 March 2019 which is July 2019, however, the lender did not exercise this option due to current low interest rates and the Council is not anticipating that this will occur during 2019-20 so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

- 1.3 The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		TMS 2018-19 £m	Actual Principal Outstanding Over 364 days 31-3-19 £m
4.	Upper Limit for Total Principal Sums Invested for more than 364 days	15	4

The actual for all three treasury management indicators above are within the accepted range.

2. Prudential Indicators 2018-19

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's Prudential Code for Capital Finance in Local Authorities.

The 2011 Code requires the Council to formally adopt CIPFA's Treasury Management Code and this was adopted by Council on 22 February 2012.

2.1 Prudential Indicators for Prudence

- 2.1.1 The following Prudential Indicators are based on the Council's capital programme which is subject to change. The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. Total capital expenditure was funded from capital grants and contributions,

capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence 2018-19	Estimate TMS 2018-19 £m	Actual 2018-19 £m
1.	Total Capital Expenditure (Non-HRA)	33.69	27.61
	Total Capital Expenditure	33.69	27.61
	Financed by :-		
	Capital Grants and Contributions	6.84	12.41
	Capital Receipts	9.18	5.12
	Revenue contribution to Capital	7.49	3.92
	Net Financing Need for Year	10.18	6.16

The capital expenditure figures have changed from the TMS 2018-19 as the capital programme approved by Council on 28 February 2018 was amended to include new approved schemes, to incorporate slippage of schemes from 2017-18 and a change in the profile of funding and prudential borrowing. This has resulted in a decrease in the Net Financing Need for 2018-19 which is a decrease in Unsupported Borrowing.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP). The actual MRP charge needs to be prudent and the methodology is detailed in the Council's MRP policy in the TMS 2018-19. The updated methodology was approved by Council 19 September 2018 as referred to paragraph 3.4 of the main report. Directorates who receive Council approval for capital schemes via Unsupported Borrowing make annual contributions to the capital costs of their schemes known as Voluntary Revenue Provisions (VRP) or additional MRP. This type of borrowing is only approved when Directorates have the necessary revenue resources to make VRP to fund the capital costs though this will be deferred in some cases until the asset becomes operational in accordance with the Council's MRP Policy.

- 2.1.2 The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council and is shown in the table below. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund in line with the Prudential Code. The MRP requirement for the Maesteg School PFI Scheme will be equivalent to the write down of the liability for the year and is met from existing budgets.

No.	Prudential indicators For Prudence	Estimate TMS 2018-19 £m	Actual 2018-19 £m
2.	Capital Financing Requirement (CFR)		
	Opening CFR (1 April 2018) adjusted excluding PFI & other liabilities	152.56	153.24
	Opening PFI CFR	17.64	17.64
	Opening Innovation Centre*	0.60	-
	Total Opening CFR	170.80	170.88
	Movement in CFR excluding PFI & other liabilities	3.62	1.84
	Movement in PFI CFR	(0.64)	(0.64)
	Movement in Innovation Centre CFR	(0.06)	-
	Total Movement in CFR	2.92	1.20
	Closing CFR (31 March 2019)	173.72	172.08
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	10.18	6.16
	Minimum and Voluntary Revenue Provisions**	(7.26)	(4.96)
	Total Movement	2.92	1.20

*Innovation Centre accounting adjustment at 01-04-18 now included in the opening CFR so not shown separately

**Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and include MRP for the Public Finance Initiative (PFI)

2.2 Limits to Borrowing Activity

2.2.1 The Council's long term borrowing at 31 March 2019 was £96.87 million as detailed in the main report. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. As the Council has an integrated TMS there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different especially when a Council is using internal borrowing as highlighted in paragraph 4.4.3 in the main report.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown in the table below.

No.	Prudential indicators For Prudence 2018-19	Estimate TMS 2018-19 £m	Actual Outstanding 31-03-19 £m
3.	External Borrowing	96.87	96.87
	Long Term Liabilities (including PFI)	20.24	17.88
	Total Gross Debt	117.11	114.75

2.2.2 Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that the external debt does not, except in the short term, exceed the Capital Financing Requirement for 2018-19. The table below shows that the Council has complied with this requirement.

No.	Prudential indicators For Prudence 2018-19	Estimate TMS 2018-19 £m	Actual Outstanding 31-03-19 £m
4.	Gross Debt & the CFR		
	Total Gross Debt	117.11	114.75
	Closing CFR (31 March)	173.72	172.08

2.2.3 A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure.

The Authorised Limit for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

The Operational Boundary for External Debt – this is not an actual limit and actual borrowing can vary around this boundary during the year. It is based on the probable external debt during the course of the year.

These are detailed below and confirm the Council is well within the limit set:-

No.	Prudential indicators For Prudence	TMS Limit 2018-19 £m	Actual 31-03-19 £m
5.	Authorised limit for external debt -		
	Borrowing	140	
	Other long term liabilities	30	
	Total	170	
6.	Operational Boundary		
	Borrowing	105	
	Other long term liabilities	25	
	Total	130	
	Borrowing		96.87
	Other long term liabilities		17.88
	Total		114.75

2.3 Prudential Indicators for Affordability

2.3.1 The **Ratio of Financing Costs to Net Revenue Stream** indicator demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the Welsh Government in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on treasury management activities and the MRP charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers. The projection has reduced from the TMS estimate due to the change in the MRP policy detailed in paragraph 3.4 of the main report.

APPENDIX A

No.	Prudential Indicators For Affordability 2018-19	Estimate TMS 2018-19 %	Actual 2018-19 %
7.	Ratio of Financing Costs to Net Revenue Stream	4.55	3.71

APPENDIX B

Credit Rating Equivalence Table

	Description	Fitch		Moody's		Standard & Poor's		
		Long	Short	Long	Short	Long	Short	
INVESTMENT GRADE	Extremely strong	AAA	F1+	Aaa	P-1	AAA	A-1+	
	Very strong	AA+		Aa1		AA+		
		AA		Aa2		AA		
		AA-	Aa3	AA-				
	Strong	A+	F1	A1		P-2	A+	A-1
		A		A2			A	
		A-	A3	A-				
	Adequate	BBB+	F2	Baa1	P-3	BBB+	A-2	
		BBB	F3	Baa2		BBB		
BBB-		Baa3		BBB-		A-3		
SPECULATIVE GRADE	Speculative	BB+	B	Ba1	Not Prime (NP)	BB+	B	
		BB		Ba2		BB		
		BB-		Ba3		BB-		
	Very speculative	B+		B1		B+		
		B		B2		B		
		B-		B3		B-		
	Vulnerable	CCC+	C	Caa1		C	CCC+	C
		CCC		Caa2			CCC	
		CCC-		Caa3			CCC-	
		CC		Ca			CC	
	C			C				
Defaulting	D	D	C		D	D		