Treasury Management Prudential Indicators

Appendix 6a

Summary Prudential Indicators

			Forecast 20/21 £000's	Forecast 21/22 £000's	Forecast 22/23 £000's	Forecast 23/24 £000's
1	**Ratio of financing costs to net revenue stream:**					
	(a) General Fund financing costs		32,639	35,639	38,082	40,017
	(b) General Fund net revenue stream		238,726	243,765	249,774	252,966
	General Fund Percentage		13.67%	14.62%	15.25%	15.82%
2	**Gross Debt & Capital Financing Requirement**					
	Gross debt including PFI liabilities		406,016	361,277	342,815	317,274
	Capital Financing Requirement		515,279	529,540	516,578	498,279
	Gross Investments		-40,000	-70,000	-70,000	-70,000
3	**Capital Expenditure (Note this excludes leasing)**					
	General Fund		230,943	220,406	137,668	44,340
4	**Capital Financing Requirement (CFR)**					
	Capital Financing Requirement		515,279	529,540	516,578	498,279
5	**Authorised limit for external debt**					
	Authorised limit for borrowing		439,540	481,092	472,916	459,741
	+ authorised limit for other long term liabilities		62,805	68,448	63,662	58,538
	= authorised limit for debt		502,345	549,540	536,578	518,279
6	**Operational boundary for external debt**					
	Operational boundary for borrowing		419,540	461,092	452,916	439,741
	+ Operational boundary for other long term liabilities		62,805	68,448	63,662	58,538
	= Operational boundary for external debt		482,345	529,540	516,578	498,279
7	**Actual external debt**					
	actual borrowing at 31 March 2020	300,890				
	+ PFI & Finance Leasing liabilities at 31 March 2020	65,205				
	+ transferred debt liabilities at 31 March 2020	11,674				
	= actual external debt at 31 March 2020	377,770				
8	**CIPFA Treasury Management Code** ~ has the authority adopted the code?					Yes
9	**Interest rate exposures for borrowing**					
	Upper Limit for Fixed Rate Exposures		422,350	481,092	472,916	459,741
	Upper Limit for Variable Rate Exposures		84,470	96,218	94,583	91,948
10	**Maturity structure of borrowing - limits**		**forecast**	**lower**	**upper**	
	under 12 months		17%	0%	50%	
	12 months to within 24 months		2%	0%	20%	
	24 months to within 5 years		19%	0%	30%	
	5 years to within 10 years		2%	0%	30%	
	10 years & above		60%	40%	100%	
11	**Investments longer than 364 days: upper limit**		30,000	30,000	30,000	30,000

Prudential Indicators

The Cipfa Code imposes on the Council clear governance procedures for setting and revising of prudential indicators and describes the matters to which a Council will 'have regard' when doing so. This is designed to deliver accountability in taking capital financing, borrowing and treasury management decisions.

The Prudential Indicators required by the Cipfa Code are designed to support and record local decision making and not as comparative performance indicators.

There are eleven indicators shown on the previous page, and these are outlined below:

Revenue Related Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream (indicator 1):

This 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 borrowing costs. The indicator shows that the revenue costs of financing the Council's capital expenditure as a proportion of it's underlying budget or "net revenue stream" is forecast to increase from 13.67% in 2020/21 to 15.82% in 2023/24. This increase reflects the increased levels of prudential borrowing funded spend within the proposed capital programme.

Capital and Treasury Management Related Prudential Indicators

Gross Debt and Capital Financing Requirement (Indicator 2):

The Council needs to be certain that gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional capital financing requirement for 2021/22 and the next two financial years. The CFR is defined as the Council's underlying need to borrow for capital purpose, i.e. it's borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The Gross Debt figures assume that further borrowing is taken out in remainder of 2020/21 in line with the CFR in addition to the estimated borrowing position set out in Section 2.4.

Capital Expenditure (Indicator 3):

This indicator is an estimation of the Council's future capital expenditure levels and these underpin the calculation of the other prudential indicators. Estimates of capital expenditure are a significant source of risk and uncertainty and it is important that these estimates are continually monitored and the impact on other prudential indicators (particularly those relating to affordability) are assessed regularly.

Capital Financing Requirement (Indicator 4):

As outlined in Indicator 2 above, the CFR represents the Council's underlying need to borrow for capital purposes.

Authorised Limit for External Debt (Indicator 5):

This statutory limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. Borrowing at this level could be afforded in the short term but is not sustainable. The Authorised limit has been set on the estimated debt with sufficient headroom over and above this to allow for unexpected cash movements.

Operational Boundary for External Debt (Indicator 6):

This indicator refers to the means by which the Council manages its external debt to ensure it remains within the statutory Authorised Limit. It differs from the authorised limit as it is based on the most likely scenario in terms of capital spend and financing during the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year.

Actual External Debt (Indicator 7):

This indicator identifies the actual debt at the end of the previous financial year as recognised with the Statement of Accounts.

Adoption of the Cipfa Treasury Management Code (indicator 8):

This indicator is acknowledgement that the Council has adopted the Cipfa's *Treasury Management in the Public Services: Code of Practice.*

Interest Rate Exposures for Borrowing (Indicator 9):

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The Upper Limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could impact negatively on the overall financial position.

Maturity Structure of Borrowing – Limits (Indicator 10):

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, thereby managing the effects of refinancing risks.

The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Investments Longer than 364 days: Upper Limit (Indicator 11):

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 364 days. This limit is set to contain exposure to credit and liquidity risk.

All these prudential limits need to be approved by full Council but can be revised during the financial year. Should it prove necessary to amend these limits, a further report will be brought to Cabinet, requesting the approval of full Council for the changes required.