Treasury Management Prudential Indicators

Appendix 6a

	Summary Prudential Indicators					
			Forecast	**Forecast**	**Forecast**	**Forecast**
			22/23	**23/24**	**24/25**	**25/26**
			£000's	**£000's**	**£000's**	**£000's**
1	**Ratio of financing costs to net revenue stream:**					
	(a) General Fund financing costs		37,853	39,017	41,794	44,720
	(b) General Fund net revenue stream		237,379	260,455	284,407	291,418
	General Fund Percentage		15.95%	14.98%	14.70%	15.35%
2	**Gross Debt & Capital Financing Requirement**					
	Gross debt including PFI liabilities		325,010	307,082	314,484	295,486
	Capital Financing Requirement		515,482	514,796	523,698	546,204
	Gross Investments		-50,000	-50,000	-50,000	-50,000
3	**Capital Expenditure (Note this excludes leasing)**					
	General Fund		159,481	159,186	104,431	119,188
4	**Capital Financing Requirement (CFR)**					
	Capital Financing Requirement		515,482	514,796	523,698	546,204
5	**Authorised limit for external debt**					
	Authorised limit for borrowing		481,092	480,919	493,655	519,793
	+ authorised limit for other long term liabilities		68,448	53,877	50,043	46,411
	= authorised limit for debt		549,540	534,796	543,698	566,204
6	**Operational boundary for external debt**					
	Operational boundary for borrowing		461,092	460,919	473,655	499,793
	+ Operational boundary for other long term liabilities		68,448	53,877	50,043	46,411
	= Operational boundary for external debt		529,540	514,796	523,698	546,204
7	**Actual external debt**					
	actual borrowing at 31 March 2022	263,254				
	+ PFI & Finance Leasing liabilities at 31 March 2022	59,943				
	+ transferred debt liabilities at 31 March 2022	8,497				
	= actual external debt at 31 March 2022	331,693				
8	**CIPFA Treasury Management Code** ~ has the authority adopted the code?					Yes
9	**Interest rate exposures for borrowing**					
	Upper Limit for Fixed Rate Exposures		481,092	480,919	493,655	519,793
	Upper Limit for Variable Rate Exposures		96,218	96,184	98,731	103,959
10	**Maturity structure of borrowing - limits**		**forecast**	**lower**	**upper**	
	under 12 months		7%	0%	50%	
	12 months to within 24 months		2%	0%	20%	
	24 months to within 5 years		18%	0%	30%	
	5 years to within 10 years		10%	0%	30%	
	10 years & above		63%	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 used 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) – Definition Revised:

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 definition of this indicator has changed this year so that the financing costs are shown gross and are not netted down for investment and interest income. The total capital financing cost figure within the indicator for 2023/24 is £3.3m higher because of this change in the definition. In addition, the 2022/23 forecast figure reported at Q3 has been restated in the table above to similarly exclude investment and interest income and ensure a consistent presentation across the 4 year period.

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 the next three financial years. The CFR is defined as the Council's underlying need to borrow for capital purpose, i.e. its 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.

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) 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 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.

Liability Benchmark – New Indicator

This indicator sets out a long term comparison of the underlying need to borrow vs the level of existing borrowing, and therefore gives a projection of the level of borrowing required. The indicator is presented as a forecast over 25 years:

Year End	Loans Capital Financing Requirement	Net Loans Requirement	Liability Benchmark	Actual Borrowing	Forecast Borrowing Required
	£m	£m	£m	£m	£m
2023	451.8	196.4	236.4	251.3	-15.0
2024	456.3	236.1	276.1	244.4	31.7
2025	471.2	286.3	326.3	243.1	83.2
2026	499.8	348.5	388.5	229.8	158.6
2027	482.1	346.0	386.0	228.5	157.5
2028	463.7	342.7	382.7	227.2	155.5
2029	443.4	337.6	377.6	225.8	151.8
2030	423.6	332.9	372.9	224.5	148.5
2031	404.5	328.9	368.9	223.1	145.8
2032	386.3	325.8	365.8	221.6	144.1

2033	368.4	307.9	347.9	202.2	145.7
2034	350.8	290.3	330.3	182.7	147.6
2035	333.4	273.0	313.0	177.7	135.3
2036	316.1	255.6	295.6	161.7	133.9
2037	298.7	238.2	278.2	161.7	116.5
2038	281.2	220.8	260.8	161.7	99.1
2039	265.5	205.1	245.1	161.7	83.4
2040	250.3	189.8	229.8	161.7	68.1
2041	235.7	175.3	215.3	161.7	53.6
2042	222.1	161.7	201.7	156.7	45.0
2043	208.5	148.0	188.0	156.7	31.3
2044	195.0	134.6	174.6	155.4	19.2
2045	181.7	121.3	161.3	155.4	5.9
2046	168.3	107.9	147.9	155.4	-7.5
2047	154.9	94.4	134.4	149.4	-15.0

Loans Capital Financing Requirement (LCFR) – the underlying requirement to borrow for capital financing purposes, excluding PFI. This increases as new capital spend to be resourced from borrowing is incurred and falls as MRP is made as a provision to repay borrowing. The LCFR is based on the capital programme set out in this report.

Net Loans Requirement (NLR) - the LCFR less resources available to temporarily fund borrowing requirements from available cash (e.g. cash backing up reserves, net current assets). The NLR assumes that the authority holds no investment balances.

Liability Benchmark (LB) - the NLR plus a liquidity allowance of £40m, representing the gross forecast level of borrowing required at each year end assuming that the authority holds a cash/investment balance of £40m as a liquidity buffer.

Actual Borrowing - the total level of existing borrowing reducing over time as borrowing matures for repayment. This figure assumes no new borrowing and that LOBO loans of £38m mature at their contractual date.

Forecast Borrowing Required - the Liability Benchmark less Actual Borrowing, representing the net forecast total level of borrowing required at each year end. Factors that impact on this 25 year forecast include the future level of: reserves; net current assets (e.g. debtors and creditors); capital expenditure; capital resourcing; Minimum Revenue Provision; debt repaid early (e.g. LOBOs in advance of the contractual maturity date).