

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS 2022/23

APPENDIX 'B'

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

- Capital Expenditure** – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000	£000
Capital Expenditure					
Housing Revenue Account	911	10,156	15,350	15,600	13,800
General Fund	39,098	62,508	19,088	11,626	6,471
Non-Financial Investments	-	-	-	-	-
- Investment Properties	6,894	442	0	0	0
- Capital loans	150	6,445	6,200	0	0
	47,053	79,551	40,638	27,226	20,271
Financed by:					
Capital Receipts	2,029	15,606	14,943	5,440	5,339
Earmarked Reserves	2,847	3,430	1,374	934	1,000
Capital Grants & Contributions	199	4,986	652	652	652
Revenue	3,030	9,331	14,830	15,200	8,280
	8,105	33,353	31,799	22,226	15,271
Net Financing Need for the Year	38,948	46,198	8,839	5,000	5,000

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown below:

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000	£000
Non-financial investments					
Capital expenditure from above	7,044	6,887	6,200	0	0
Financing Costs met	150	6,445	6,200	0	0
Net Financing Need for the Year	6,894	442	0	0	0
Percentage of individual net financing need	98%	6%	0%	0%	0%
Percentage of total net financing need	18%	1%	0%	0%	0%

- The Council's borrowing need (the Capital Financing Requirement)** – The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

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The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000	£000
CFR at start of year					
- HRA	101,956	101,956	100,000	100,000	100,000
- General Fund	106,009	143,881	191,122	198,872	202,625
- Non-financial investments	435,846	433,102	429,740	426,243	422,606
	643,811	678,939	720,862	725,115	725,231
Net Financing Need for the Year	38,948	46,198	8,839	5,000	5,000
Less MRP/VRP	-3,820	-4,275	-4,586	-4,884	-5,161
CFR at end of year	678,939	720,862	725,115	725,231	725,070

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

- 3 Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances based on assumed cash movements in the MTFs and Capital Programme.

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000	£000
Reserves / Balances					
General Fund Balance	15,188	14,093	13,881	12,631	10,808
Housing Revenue Account	29,254	26,946	18,126	8,126	3,126
HRA Major Repairs Reserve	5,806	3,319	0	0	0
Earmarked reserves / other balances	22,591	15,982	12,418	10,021	10,988
Capital Receipts Reserve	7,572	5,479	2,580	11,877	7,900
Capital Grants Unapplied	5,820	2,910	0	0	0
Expected Investments at year end	86,231	68,729	47,005	42,655	32,822

- 4 Affordability Prudential Indicators** – The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.
- 5 Ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General

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Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	%	%	%	%	%
Ratio of Net Financing Costs to Net Revenue Stream	53.60%	85.91%	79.39%	90.36%	83.17%
General Fund	73.97%	212.48%	176.02%	251.54%	181.77%
Housing Revenue Account	30.99%	31.77%	29.96%	30.03%	30.22%

The General Fund percentage is high due to additional borrowing to fund the Property Investment Strategy and ongoing property developments. These costs are fully met by additional revenue income rather than Government grant and local taxpayers, however this income is not allowed to be included in this calculation. Including the income generated by the Property Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

- 6 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The upper limit for principal sums invested for longer than 365 days is set at:

	2020/21 Actual £000s	2021/22 Probable £000s	2022/23 Estimate £000s	2023/24 Estimate £000s	2024/25 Estimate £000s
Principal sums invested for longer than 365 days	0	3,000	3,000	5,000	10,000

- 7 **Investment risk benchmarking** - The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 3, 6 or 12 month LIBID (The London Interbank Bid Rate – the rate at which a bank is willing to borrow from other banks).
- 8 **Borrowing** – The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.
- 9 **Current Portfolio Position** – The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000	£000
External Debt					
Debt at 1 April	632,574	627,629	673,827	680,710	685,710
Expected Change in debt	- 4,945	46,198	6,883	5,000	5,000
Actual gross debts at 31 March	627,629	673,827	680,710	685,710	690,710
CFR	678,939	720,862	725,115	725,231	725,070
Under / (Over) Borrowing	51,310	47,035	44,405	39,521	34,360

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The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

	Actual 20/21	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000	£000
Non-Financial Investment Debt					
Overall Debt at 1 April	632,574	627,629	673,827	680,710	685,710
Ousting Non-Financial Instrument Debt	435,846	433,102	429,740	426,243	422,606
Percentage	69%	69%	64%	63%	62%

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following three financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Chief Executive reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

- 10 The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000
Operational Boundary				
General Fund	571,871	580,710	585,710	585,710
HRA	101,956	100,000	100,000	105,000
Other	15,000	15,000	15,000	15,000
Operational Boundary	688,827	695,710	700,710	705,710

- 11 The authorised limit for external debt** – A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following authorised limit:

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	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000
Authorised Limit				
General Fund	571,871	580,710	585,710	585,710
HRA	112,152	110,000	110,000	115,500
Other	30,000	30,000	30,000	30,000
Authorised Limit	714,023	720,710	725,710	731,210

This limit includes a “cushion” to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). The “Other” column also includes a figure for the potential for new leases being brought onto the balance sheet,

12 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	Probable 21/22	Estimate 22/23	Estimate 23/24	Estimate 24/25
	£000	£000	£000	£000
Interest Rate Exposure UPPER Limits				
on fixed interest rates based on net debt	669,744	693,570	707,333	717,494
on variable interest rates based on net debt	-	-	-	-

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change on a daily basis therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

Maturity structure of interest rate borrowing 2022/23				
	FIXED interest		VARIABLE interest	
	Lower	Upper	Lower	Upper
Under 12 months	0%	25%	0%	0%
12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%

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10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.