Appendix B – Treasury Management Prudential Indicators

Legislative Update

In December 2021, CIPFA published its revised Prudential Code and Treasury Management Code of Practice following concerns around the commercial activity undertaken by several local authorities and the affordability of borrowing plans.

The Code required authorities to not borrow to invest primarily for financial return and all capital expenditure undertaken must be related to the functions of the authority. The Council has not undertaken any activities to invest for a yield or have any commercial plans within the capital programme.

The code required the Prudential Indicators (which are approved as part of the Council's Treasury Management Strategy) to be reported quarterly (from semi-annually) as part of the financial updates. The code permitted this reporting to be implemented by the 2023/24 financial year so this appendix will be a recurring addition to the quarterly financial reports.

Prudential Indicators

The Council has a significant borrowing requirement and balance and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

(a) Capital Financing Requirement (CFR)

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement. This is the amount of the Capital Programme that is funded by borrowing. The Council's maximum external borrowing requirement for 2023/24 is shown in the table below. The indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

	2023/24 Forecast	**2024/25 Budget**	**2025/26 Budget**	**2026/27 Budget**	**2027/28 Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Opening CFR	1,146.4	1,411.1	1,688.8	1,802.7	1,816.1
Capital Expenditure	378.1	450.7	169.8	65.5	42.2
External Resources	(43.7)	(57.7)	(4.5)	(15.0)	0.0
Internal Resources	(54.6)	(96.9)	(29.1)	(11.4)	(6.3)
MRP	(15.2)	(18.7)	(22.7)	(25.7)	(27.1)
Closing CFR	**1,411.1**	**1,688.8**	**1,802.7**	**1,816.1**	**1,824.9**

(b) Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term, debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows that the Council expects to comply with this recommendation during 2023/24.

Debt	**2023/24**	**30/06/23**
	Estimate	**Actual**
	£m	**£m**
Borrowing	689.0	747.7
PFI liabilities	17.1	18.8
Other	7.7	7.7
Total Debt	**713.7**	**774.1**
Capital Financing Requirement	**1,411.1**	**1,411.1**
Compliance	**Yes**	**Yes**

(c) Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31/03/24 Forecast	**31/03/2025 Forecast**	**31/03/26 Forecast**
	£m	**£m**	**£m**
Loans CFR	1,435.2	1,713.8	1,829.9
Less Balance sheet resources	(438.2)	(438.2)	(438.2)
Net Loan requirement	**997.0**	**1,275.6**	**1,391.7**
Plus Liquidity Allowance	20.0	20.0	20.0
Liability Benchmark	**1,017.0**	**1,295.6**	**1,411.7**

(d) Authorised limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Council's estimate of most likely i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring.

Other long-term liabilities comprise finance leases, Private Finance Initiative contracts and other liabilities that are not borrowing but form part of the Council's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the

Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

	Operational Boundary	Authorised Limit	Actual external debt 30/06/23	Compliance
	£m	£m	£m	
Borrowing	1,500.0	1,700.0	747.7	Yes
Other Long-term liabilities	-	-	34.5	
Total	**1,500.0**	**1,700.0**	**782.2**	

The Corporate Director for Finance and Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during Q1 of 2023/24.

(e) Upper Limits on one-year revenue impact of a 1% movement in interest rates

This indicators is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

	2023/24 Approved Limits £m	30/06/2023 Actual £m
Upper limit on one-year revenue impact of a 1% rise in interest rates	5.0	0.6
Compliance with limits:		Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	5.0	0.6
Compliance with limits:		Yes

(f) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replace at times of uncertainty over interest rates. The Council uses the option date as the maturity date for it's LOBO loans.

Maturity Structure of Fixed Rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing at 30/06/2023	% of Fixed Rate Borrowing at 13/06/2023	Compliance with set limits?
	%	**%**	**£m**	**%**	**Yes / No**
Under 12 months	40%	0%	52.5	7%	Yes
12 months and within 24 months	40%	0%	9.4	1%	Yes
24 months and within 5 years	40%	0%	28.2	4%	Yes
5 years and within 10 years	60%	0%	46.8	6%	Yes
10 years and within 20 years	75%	0%	134.8	18%	Yes
20 years and within 30 years	75%	0%	116.3	16%	Yes
30 years and within 40 years	75%	0%	199.3	27%	Yes
Over 40 years	75%	0%	160.5	21%	Yes
			747.7	**100%**	

(g) Ratio of Financing Costs to Net Revenue Stream

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 financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/2024 Estimate
Financing costs	33.1
Proportion of net revenue stream (%)	5.1%

(h) Upper Limit for Total Principal Sums invested over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for Total Principal Sums Invested Over 364 Days	2023/24 Approved £m	30/06/2023 Actual £m
Limit on principal invested beyond a year	50	0

(i) Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	2023/24 Target	30/06/2023 Actual
Portfolio average credit rating	A	A+

(j) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	2023/24 Target £m	30/06/2023 Actual £m
Total cash available within 3 months	20	136.6

(k) Investment Forecast

This indicator demonstrates the Council's investment exposure broken down by category.

Total investment exposure	23/24 Actual	23/24 Forecast
	£m	£m
Treasury management investments	108.8	30.0
Service investments: Loans	272.7	172.1
Commercial investments: Property	14.1	20.7
TOTAL INVESTMENTS	**402.2**	**222.8**
Commitments to lend	11.3	11.3
TOTAL EXPOSURE	**428.9**	**234.1**

Treasury management investments are higher than originally forecast due to the holding of additional short-term investments to allow for more flexible timing around long-term borrowing needs in light of the elevated interest rate environment.

(l) Investment Funding

This indicator demonstrates the amount of exposure to borrowing as a result of investments made for service purposes. These investments are the loans to the Council's subsidiaries i4B Holdings Ltd and First Wave Housing Ltd.

Investments funded by borrowing	23/24 Actual	23/24 Forecast
	£m	£m
Service investments: Loans	272.7	172.1
Total funded by borrowing	**272.7**	**172.1**

(m) Investment Rate of Return

This indicator demonstrates the rate of return obtained from the different investment categories.

Investments rate of return	23/24 Actual	23/24 Budget
Treasury management investments	4.46%	3.10%
Service investments: Loans	3.11%	3.90%
Commercial investments: Property	21%	15%

(n) Other Investment Indicators

Indicator	2023/24 Actual	2023/24 Forecast
Debt to net service expenditure ratio	2.09	2.03
Commercial income as a % of net service expenditure ratio	0.96%	0.94%