

TREASURY MANAGEMENT STRATEGY 2024/25 REGULATORY INFORMATION AND PRUDENTIAL INDICATORS

1. INTRODUCTION

- 1.1 The regulatory information and prudential indicators for the 2024/25 Treasury Management Strategy are set out below.

2. PRUDENTIAL INDICATORS

- 2.1 The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and set prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity.
- 2.2 The first prudential indicator is confirmation that the Authority has adopted the CIPFA Treasury Management Code of Practice, which the Treasury Management Strategy report confirms.
- 2.3 Details of the proposed prudential limits are set out in the following sections.

3. CAPITAL EXPENDITURE AND FINANCING REQUIREMENT

- 3.1 The Authority's Borrowing Strategy is driven by the Capital Financing Requirement (CFR) and the Authority's view of interest rates. The CFR is the total outstanding capital expenditure which has not yet been paid for from revenue budgets or other capital resources. It is essentially a measure of the Authority's underlying borrowing need based on capital programmes approved by the Authority in previous years.
- 3.2 The Government no longer issues supported borrowing allocations. Consequently all borrowing is now made under the Prudential Borrowing Code. Capital spending decisions need to have regard to the following:
- Service objectives (e.g. strategic planning);
 - Stewardship of assets (e.g. asset management planning);
 - Value for money (e.g. option appraisal);
 - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
 - Affordability (e.g. implications for the Council Tax);
 - Practicality (e.g. the achievability of the forward plan).
- 3.4 The Authority ultimately needs to fund the CFR by borrowing money from the Public Works Loan Board (PWLb) or banks. The CFR is then repaid over a number of years reflecting the long term benefits of capital expenditure. In simple terms the CFR represents the Authority's outstanding mortgage,

although the legislation and accounting requirements are significantly more complex.

- 3.5 The estimated Capital Finance & Borrowing Requirement is shown in the following table:

Capital Financing & Borrowing Requirement	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
CFR at 1st April	8,881	10,176	14,577	14,330
Capital Expenditure Financed by Borrowing	1,788	4,991	580	946
Less Repayment of CFR	(493)	(590)	(827)	(861)
CFR at 31st March	10,176	14,577	14,330	14,415

- 3.6 As part of the Medium Term Financial Strategy the Authority is required to approve the 2023/24 capital programme summarised as follows:

Capital Expenditure	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Capital Expenditure	2,779	7,587	580	1,485
Financed by:				
Capital Investment Programme	991	2,596	0	539
Prudential Borrowing	1,788	4,991	580	946
Total Funding	2,779	7,587	580	1,485

4. AFFORDABILITY PRUDENTIAL INDICATORS

- 4.1 The affordability of the approved Capital Investment Programme was assessed when the Asset Management Plan was approved and revenue costs are built into the Medium Term Financial Strategy. The 'Affordability Prudential Indicators' are detailed below and are intended to give an indication of the affordability of the planned capital expenditure financed by borrowing in terms of the impact on Council Tax and the Net Revenue Stream.

4.3 Ratio of Financing Costs to Net Revenue Stream

- 4.4 This shows the net cost of capital borrowing as a percentage of the net budget and the forecast annual increases reflect the phasing of borrowing to partly fund the Asset Management Plan.

%	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio	2.28%	2.48%	3.11%	3.16%

5. BORROWING PRUDENTIAL INDICATORS

5.1 Debt Projections 2023/24 – 2026/27

5.2 The table below sets out the Authority's projected Capital Financing Requirement (CFR) and level of debt:

Debt and Investment Projections	2023/24 Revised £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Long Term Borrowing 1 April	8,896	10,276	14,842	15,009
Expected change in Long Term Debt	1,380	4,566	167	518
Debt at 31 March	10,276	14,842	15,009	15,527
CFR	10,176	14,577	14,330	14,415
Advance/(Under) Borrowing	100	265	679	1,112

5.4 Limits to Borrowing Activity

5.5 Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

5.6 The Authority needs to ensure that total borrowing 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 2024/2025 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

External Debt	2023/24 Revised £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Gross Borrowing	10,276	14,842	15,009	15,527
Capital Financing Requirement	10,176	14,577	14,330	14,415

5.7 The following table shows two key limits for the monitoring of debt. The Operational Limit is the likely limit the Authority will require and is aligned closely with the actual CFR on the assumption that cash flow is broadly neutral. The Authorised Limit for External Debt is a further key prudential indicator to control the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. In practice it needs to take account of the range of cash flows that might occur for the Authority in addition to the CFR. This also includes the flexibility to enable advance refinancing of existing loans.

Borrowing Limits	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000	2026/27 Estimated £'000
Operational Limit	11,000	16,000	16,000	16,000
Authorised limit	13,000	18,000	18,000	18,000

6. INVESTMENT PRUDENTIAL INDICATORS AND OTHER LIMITS ON TREASURY ACTIVITY

6.1 Investment Projections 2023/24– 2026/27

6.2 The following table sets out the estimates for the expected level of resource for investment or use to defer long term borrowing.

2022/23 Outturn £'000	Year End Resources	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
12,744	Balances and Reserves	12,346	8,842	7,187	5,202
643	Provisions	643	643	643	643
10	Collection fund Adjustment Account	0	0	0	0
13,397	Total Core Funds	12,989	9,485	7,830	5,845
(3,063)	Working Capital*	(2,169)	(2,169)	(2,169)	(2,169)
10,334	Resources Available for Investment	10,820	7,316	5,661	3,676
15	(Under)/Advance borrowing	100	265	679	1,112
10,349	Expected Investments	10,920	7,581	6,340	4,788

6.3 Sensitivity to Interest Rate Movements

6.4 Sensitivity to Interest Rate Movements is a prudential indicator that the Authority is required to disclose. The following table highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. These forecasts are based on a prudent view of a +/- 1% change in interest rates. As borrowing has already been undertaken to fund the majority of the CFR there is limited risk in relation to the impact of borrowing on revenue budgets for 2022/23. For investments they are based on a prudent view of the total amount invested.

Impact on Revenue Budgets	2024/25 Estimated 1% £'000	2024/25 Estimated -1% £'000
Interest on Borrowing	0	0
Investment income	119	(119)
Net General Fund Borrowing Cost	119	(119)

6.5 There are four further treasury activity limits and the purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

6.6 The limits are:

- i) Upper limits on variable interest rate exposure – This identifies a maximum limit for the Authority's borrowing and investments that are held with variable interest rates. The proposed limits are detailed in the following table.

Limits on Variable Interest Rates	2024/25 Upper £'000	2025/26 Upper £'000	2026/27 Upper £'000
Borrowing	75%	75%	75%
Investments	100%	100%	100%

- ii) Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit for the Authority's borrowing and investments that are held with fixed interest rates.

Limits on Fixed Interest Rates	2024/25 Upper £'000	2025/26 Upper £'000	2026/27 Upper £'000
Borrowing	100%	100%	100%
Investments	100%	100%	100%

- iii) Maturity structure of borrowing – Limits for the 'Maturity Structure of Borrowing' are intended to reduce exposure to large fixed rate sums falling due for refinancing. In the opinion of the Treasurer limits on fixed and variable rates for **borrowing** are unhelpful and could lead to higher costs of borrowing. Previous experience has shown that it is possible to move from a position of predominantly fixed rate borrowing to variable rate borrowing and then back to fixed rate borrowing over a period of two years. In the Treasurer's professional opinion this proactive management of investments and borrowing continues to provide the most cost effective strategy for the Authority, whilst not exposing the Authority to unnecessary risk. The Authority should ensure maximum flexibility to minimise costs to the revenue budget in the medium term. These limits are detailed in the following table:

Maturity Structure of fixed interest rate borrowing				
	2023/24 £000	2023/24 £000	2023/24 £000	2023/24 £000
	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Under 12 months	0	90%	0	90%
12 months to 2 years	0	100%	0	100%
2 years to 5 years	0	100%	0	100%
5 years to 10 years	0	100%	0	100%
10 years to 20 years	0	100%	0	100%
20 years to 30 years	0	100%	0	100%
30 years to 40 years	0	100%	0	100%
40 years to 50 years	0	100%	0	100%
50 years to 60 years	0	100%	0	100%
60 years to 70 years	0	100%	0	100%

The limits allow for borrowing up to the Capital Financing Requirement at either variable or fixed rates. The intention is to move to fixed rate borrowing when rates are at an appropriate level and may require the temporary use of variable rate borrowing in the interim.

- iv) Maximum principal sums invested – Total principal funds invested for greater than 364 days – These limits are set with regard to the Authority's liquidity requirements and reflect the current recommended advice that investments are limited to short term investments i.e. up to 1 year.

Limit for Maximum Pincipal Sums Invested > 364 days			
	1 year £000	2 years £000	3 years £000
Maximum	5,000	0	0

6.7 Liability Benchmark

- 6.8 The liability benchmark treasury indicator is to support the financing risk management of the capital financing requirement, with material differences between the liability benchmark and actual loans. The liability benchmark is a long-term forecast of the Authority's gross loan debt based on its current capital programme and other forecast cash flow movements.
- 6.9 The chart therefore tells an authority how much it needs to borrow, when and to match maturities with its planned borrowing needs.

6.10 Liability Benchmark

