APPENDIX B

TREASURY MANAGEMENT STRATEGY 2022/23 REGULATORY INFORMATION AND PRUDENTIAL INDICATORS

1. INTRODUCTION

1.1 The regulatory information and prudential indicators for the 2022/23 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	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
CFR at 1st April	**9,315**	**10,621**	**11,779**	**12,234**
Capital Expenditure Financed by Borrowing	1,800	1,781	1,055	2,763
Less Repayment of CFR	(494)	(623)	(600)	(586)
CFR at 31st March	**10,621**	**11,779**	**12,234**	**14,411**

3.6 As part of the Medium Term Financial Strategy the Authority is required to approve the 2022/23 capital programme summarised as follows:

Capital Expenditure	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Expenditure	2,246	2,160	1,731	3,094
Financed by:				
Capital Financing Reserve	446	379	676	331
Prudential Borrowing	1,800	1,781	1,055	2,763
Total Funding	**2,246**	**2,160**	**1,731**	**3,094**

3.7 As detailed above the total proposed Prudential Borrowing for the period 2021/22 to 2025/25 is £7.399m. As detailed in the MTFS this is the maximum approved limit and it is anticipated this level of borrowing will be reduced by £2.830m to reflect one off resources released from the Budget Support Fund to support the AMP. Until the financial outlook for 2023/24 and future years is certain the higher limits provide a fall-back position. These limits will only be used if the revenue budget deficit increase and the Budget Support Fund needs to be reinstated to support the budget and protect services whilst a plan to address a higher budget deficit is determined.

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.

%	2021/22 Revised	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio	2.97%	3.34%	3.16%	3.03%

5. BORROWING PRUDENTIAL INDICATORS

5.1 Debt Projections 2021/22 – 2024/25

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

Debt and Investment Projections	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
Long Term Borrowing 1 April	9,112	10,492	11,746	12,197
Expected change in Long Term Debt	1,380	1,254	451	2,098
Debt at 31 March	**10,492**	**11,746**	**12,197**	**14,295**
CFR	**10,621**	**11,779**	**12,234**	**14,411**
Advance/(Under) Borrowing	**(129)**	**(33)**	**(37)**	**(116)**

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 2021/2022 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	2021/22 Revised £'000	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000
Gross Borrowing	10,492	11,746	12,197	14,295
Capital Financing Requirement	**10,621**	**11,779**	**12,234**	**14,411**

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	**2021/22 Estimated £'000**	**2022/23 Estimated £'000**	**2023/24 Estimated £'000**	**2024/25 Estimated £'000**
Operational Limit	12,000	13,000	13,000	15,000
Authorised limit	14,000	15,000	15,000	17,000

6. INVESTMENT PRUDENTIAL INDICATORS AND OTHER LIMITS ON TREASURY ACTIVITY

6.1 Investment Projections 2021/22 – 2024/25

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

2020/21 Outturn £'000	**Year End Resources**	**2021/22 Revised £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
12,059	Balances and Reserves	9,002	7,671	6,228	4,064
296	Provisions	296	296	296	296
1,255	Collection fund Adjustment Account	0	0	0	0
13,610	**Total Core Funds**	**9,298**	**7,967**	**6,524**	**4,360**
(1,791)	Working Capital*	(1,568)	(1,568)	(1,568)	(1,568)
11,819	**Resources Available for Investment**	**7,730**	**6,399**	**4,956**	**2,792**
(203)	(Under)/Advance borrowing	(129)	(33)	(37)	(116)
11,616	**Expected Investments**	**7,601**	**6,366**	**4,919**	**2,676**

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 2021/22. For investments they are based on a prudent view of the total amount invested.

Impact on Revenue Budgets	**2020/21 Estimated 1% £'000**	**2020/21 Estimated -1% £'000**
Interest on Borrowing	0	0
Investment income	(121)	121
Net General Fund Borrowing Cost	**(121)**	**121**

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	**2022/23 Upper £'000**	**2023/24 Upper £'000**	**2024/25 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	**2022/23 Upper £'000**	**2023/24 Upper £'000**	**2024/25 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				
	2021/22 £000 Lower Limit	2021/22 £000 Upper Limit	2022/23 £000 Lower Limit	2022/23 £000 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 Performance Indicators

6.8 The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The Authority will produce the following performance indicators for information and explanation of previous treasury activity:

- Debt - Average rate movement year on year.

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