TREASURY MANAGEMENT STRATEGY 2023/24

Appendix 5e – Prudential Indicators 2023/24 - 2025/26

PRUDENTIAL INDICATORS

1. Background and Summary

1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities and agree Prudential Indicators. This report revises the Indicators for 2022/23, 2023/24, 2023/24 and introduces new Indicators for 2025/26. Each indicator either summarises the expected activity or introduces limits upon the activity and reflects the outcome of the Council's underlying capital appraisal systems.

2. Capital expenditure plans

2.1 The Council's capital expenditure plans are reported and recommended for approval in the Capital Programme 2023/24 and are summarised below. This forms the first of the Prudential Indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants, etc.), but if resources are insufficient any residual expenditure will need to be borrowed.

2.2 On 29th October 2018 the government confirmed that the Housing Revenue Account (HRA) borrowing cap was abolished with immediate effect. As a result, borrowing for housebuilding is no longer constrained by government controls, leading to authorities able to borrow in line with the Prudential Code. The HRA is pursuing property investment proposals in light of the removal of the cap from 2023/24 and is included within the capital programme below.

2.3 A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources.

2.4 The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

2.5 The Council is referred to the summary capital expenditure projections below, as reported in the Capital Programme 2023/24. This forms the first Prudential Indicator:

£'000s	2022/23 Revised	2023/24 Programme	2024/25 Programme	2025/26 Programme
Capital Expenditure:				
Non-HRA	42,136	56,387	39,863	54,373
HRA	13,249	23,456	17,421	9,048
Financed by:				
Capital Receipts	-	-	-	-
Capital Grants	(22,656)	(26,742)	(30,927)	(43,767)
Capital Reserves	(1,047)	-	-	-
Revenue Contributions	(1,076)	-	-	-
Net financing need for the year:	**30,606**	**53,101**	**26,357**	**19,654**

3. The Council's borrowing need (the Capital Financing Requirement)

3.1 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is made up of the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources along with any business loans issued from the expanded Business loans Fund including loans made to Blackpool Housing Company. The expansion of the Business Loans Fund is explained in more detail in the Capital Strategy Report. The CFR is essentially a measure of the Council's underlying need to borrow.

3.2 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP). The overriding principle in calculating the MRP is that it must be prudent and this is covered in more detail in Annex F of this report.

3.3 The Council is asked to approve the CFR projections below:

£'000s	2022/23 Revised	2023/24 Programme	2024/25 Programme	2025/26 Programme
Capital Financing Requirement:				
CFR - Non Housing	585,665	633,009	651,314	667,332
CFR - Housing	25,235	38,336	47,693	49,597
Total CFR	**610,900**	**671,345**	**699,007**	**716,929**
Movement in CFR	**31,861**	**60,446**	**27,662**	**17,922**

Movement in CFR represented by:				
Net financing need for the year:	30,606	53,101	26,357	19,654
MRP/Voluntary Revenue Provision and other financing movements:	(2,745)	(6,212)	(12,073)	(13,325)
Business Loan Fund advances:	10,756	20,000	20,000	20,000
Business Loan Fund repayments:	(6,756)	(6,443)	(6,622)	(8,408)
Movement in CFR	**31,861**	**60,446**	**27,662**	**17,922**

3.4 In order to ensure that over the medium-term borrowing will only be taken for a capital purpose, the local authority should ensure that gross external borrowing 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. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external borrowing. This is a key indicator of prudence.

4. The use of the Council's resources and the investment position

4.1 The application of resources (capital receipts, reserves, etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

4.2 Any capital receipts and capital reserves available to finance capital expenditure during the period covered by the Treasury Management Strategy are shown in the table under paragraph 2.5 above.

5. Limits to borrowing activity

5.1 Within the Prudential Indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

5.2 For the first of these the Council needs to ensure that its 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 2023/24 and the next two financial years

Y/end positions £'000s	2022/23 Revised	2023/24 Projection	2024/25 Projection	2025/26 Projection
Long-term borrowing	200,534	196,059	201,879	220,956
Short-term debt	209,221	275,878	305,613	316,859
PFI & Other Liabilities	97,110	94,393	91,265	87,639
Gross Borrowing	506,865	566,330	598,758	625,455
CFR	610,900	671,345	699,007	716,929

5.3 The Director of Resources reports that the Council has 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 next year’s budget report.

5.4 A further two Prudential Indicators control or anticipate the overall level of borrowing:

5.5 **The Authorised Limit for external debt** - This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by 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.

5.6 **The Operational Boundary for external debt** - This indicator is based on the expected maximum external debt during the course of the year; it is not a limit. The Operational Boundary differs from the Authorised Limit in that it is based on expectations of the maximum external debt according to probable - not simply possible - events and is consistent with the maximum level of external debt projected by the estimates. The setting of this Operational Boundary is a matter of careful judgement. If it is set too high then it may be too near the Authorised Limit for there to be a margin sufficient to allow time to take corrective action before the Authorised Limit is breached. Alternatively, if it is set too low it will be breached so frequently that it will cease to act as a credible warning indicator. The intention therefore is that this operates as a form of early warning about certain cash-flow problems.

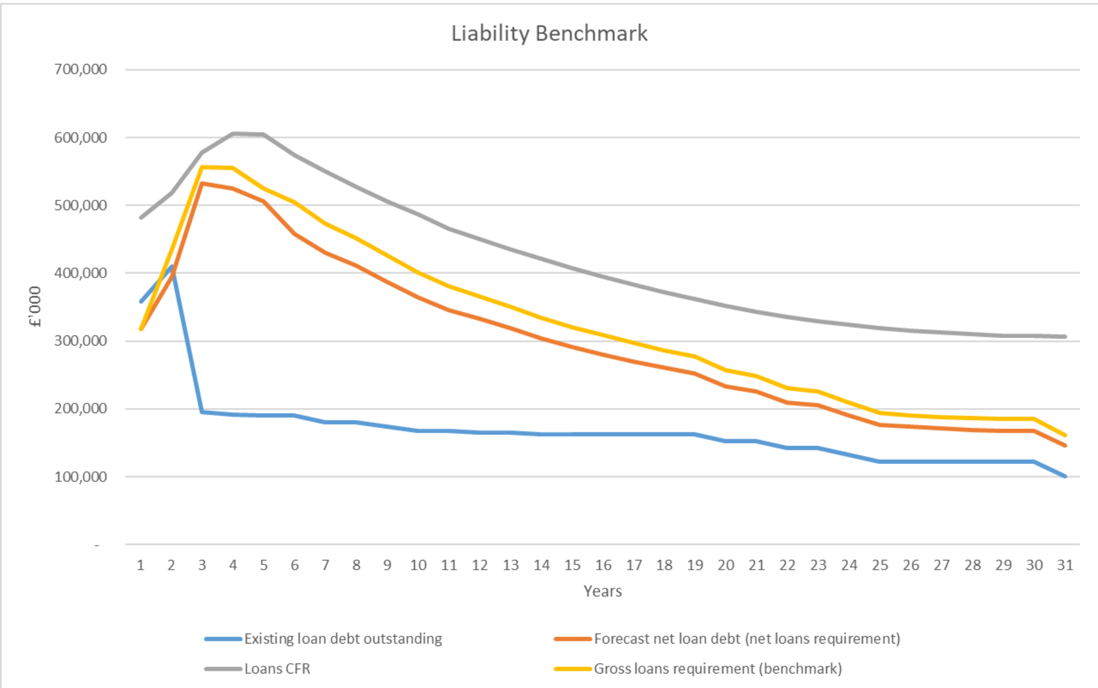
5.7 The Council is asked to approve the following Authorised Limit and Operational Boundaries, two indicators which are based on debt (including short-term) and are gross of investments.

Authorised Limit £'000s	**2022/23 Revised**	**2023/24 Projection**	**2024/25 Projection**	**2025/26 Projection**
Borrowing limit	520,000	576,000	604,000	626,000
Other long-term liabilities limit	100,000	95,000	95,000	90,000
Total limit	620,000	671,000	699,000	716,000
Operational Boundary Limit £'000s	**2022/23 Revised**	**2023/24 Projection**	**2024/25 Projection**	**2025/26 Projection**
Borrowing limit	511,000	567,000	595,000	617,000
Other long-term liabilities limit	99,000	94,000	94,000	89,000
Total limit	610,000	661,000	689,000	706,000

5.8 The Authorised Limit is set by reference to the CFR and to allow for any potential peaks in temporary borrowing, since this will be counted against the overall borrowing. The Operational Boundary is set to equate to expected debt levels including normal day to day cash requirements.

6. The Liability Benchmark

6.1 This indicator compares the authority's existing outstanding loan against its future need for loan debt. Where the existing loan debt is below the gross loan requirement, the authority expects to borrow to meet the shortfall. Conversely, where the existing loan debt is above the gross loan requirement, the authority will invest the excess funds.



7. Affordability Prudential Indicators

7.1 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 overall Council's finances. The Council is asked to approve the following indicators:

7.2 Actual and estimates of the 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.

%	2022/23 Revised	2023/24 Programme	2024/25 Programme	2025/26 Programme
Non-HRA	6.2%	13.6%	19.1%	20.6%
HRA	4.0%	7.2%	10.2%	10.8%

The estimates of financing costs include current commitments and the proposals in the Budget Report presented concurrently for approval.

8. Treasury Management Prudential Indicators, Limits on Activity and Attitude to Risk

8.1 Blackpool Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured. It uses the Treasury Management Prudential Indicators as part of the risk control process to limit activity and monitor performance.

8.2 There are five treasury Prudential Indicators. The purpose of these Prudential Indicators is 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. However, if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

8.3 **Gross debt and the Capital Financing Requirement (CFR)** - In order that over the medium-term, debt will only be taken for a capital purpose, the Council should ensure that external 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 the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. This is a key indicator of prudence.

8.4 **Upper limits on variable interest rate exposure** - This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments. In cases where the terms of the borrowing or investment raise questions as to whether it should be treated as fixed or variable, it is to be treated as variable for the purposes of these Prudential Indicators. We consider that this indicator is best calculated using the principal capital value rather than percentages.

8.5 **Upper limits on fixed interest rate exposure** - This indicator is similar to the previous indicator but covers a maximum limit on fixed interest rates.

8.6 **Maturity structures 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. They show the amount of projected borrowing that is fixed rate maturing in each period as a percentage of the total projected borrowing that is fixed rate.

8.7 **Total principal funds invested for over 365 days** - These limits are set to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

8.8 The Council is asked to approve the following Prudential Indicators (in the table below). Note that for each year, the upper limits on fixed interest rates equate to the expected Capital Financing Requirement for that year:

	2023/24	2024/25	2025/26
Gross Debt (£M)			
	Upper	**Upper**	**Upper**
Gross Debt	670	698	717
Capital Financing Requirement	670	698	717
Interest rate exposures (£M)			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	670	698	717
Limits on variable interest rates based on net debt	402	419	430
Maturity structure of fixed interest rate borrowing 2021/22 (%)			
		Lower	**Upper**
Under 12 months			18%
12 months and within 2 years			18%
2 years and within 5 years			30%
5 years and within 10 years		2%	60%
10 years and within 30 years		2%	70%
30 years and above		15%	90%
Total principal sum invested for over 364 days			
Principal sum invested for over 365 days	£ nil	£ nil	£ nil