

Prudential Indicators

The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. Following the December 2017 publication of the revised CIPFA Treasury Management Code of Practice, there is no longer a requirement to include the prudential indicator showing the incremental impact on the Council tax / Housing rents of Capital Investment decisions, so this has been removed. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.

It should be noted that these indicators should not be used for comparison with indicators from other local authorities. Use of them in this way would be likely to be misleading and counterproductive as other authorities Treasury Management policies and practices vary. The most important indicator is prudential indicator number 4 which specifies the authorised limit which cannot be breached under any circumstances. In the event that this indicator was breached a separate report would be brought to Council.

Prudential Indicator 1 - The ratio of financing costs indicator shows the trend in the cost of financing capital expenditure as a proportion of the Authority's net revenue. This indicator also shows the ratio of the HRA financing costs to the HRA net revenue stream.

Prudential Indicator	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	9.2	9.9	7.3	9.4
HRA ratio of financing costs to HRA net revenue stream	38.7	37.9	39.0	38.7

Prudential Indicator	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	8.9	9.5	6.9	9.0

Prudential Indicator 2 - A key indicator of prudence is that gross external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012.

Prudential Indicator	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m	£ m
Non HRA Capital Financing Requirement	388	413	431	453	469
HRA Capital Financing Requirement	85	90	95	100	100
Commercial activities/non-financial investments Capital Financing Requirement	4	6	19	34	32
Total CFR	477	509	545	587	601
Movement in CFR	2	32	36	42	14
Movement in CFR represented by					
Net financing need for the year (above)	5	4	44	45	20
Less MRP/VRP and other financing movements	-7	28	-9	-3	-6
Movement in CFR	2	32	36	42	14
Gross Borrowing (including HRA)	304	298	348	398	428
Investments	148	150	150	150	150
Net Borrowing	156	148	218	268	278

Prudential Indicator 3 - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2021/22, and the estimated expenditure for 2022/23, 2023/24 and 2024/25. This indicator also includes details on the financing of capital expenditure.

Prudential Indicator	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	57.5	87.2	159.4	93.4	88.5
HRA Capital expenditure	4.5	9.2	16.5	20.2	19.0
Commercial activities/non-financial investments	3.7	1.2	13.0	16.8	0.0
Total Capital expenditure	65.7	97.6	188.9	130.3	107.5
Financing of capital expenditure					
Capital receipts	2.1	8.7	27.0	11.9	3.6
Capital grants	49.7	52.3	69.9	31.1	16.8
Other Contributions	6.4	10.9	23.0	9.4	0.0
Major Repairs Allowance	2.6	3.6	3.8	4.8	4.8
Alternative Funding Options	0.0	0.0	3.3	5.1	40.9
Revenue	0.4	3.0	3.4	0.8	1.0
Net financing need for the year	4.3	19.0	58.5	67.1	40.3
Commercial activities/non-financial investments	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£ m	£ m	£ m	£ m	£ m

Capital expenditure	3.7	1.2	13.0	16.8	0.0
Financing Costs	0.2	0.4	0.4	0.5	0.0
Net financing need for the year	3.5	0.8	12.6	16.2	0.0
Percentage of total net financing need	95%	69%	97%	97%	100%

Prudential Indicator	2021/22	2022/23	2023/24	2024/25
	£ m	£ m	£ m	£ m
HRA CFR	90	95	100	100

Prudential Indicator 4 which must not be breached - The authorised limit is the borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

Prudential Indicator	2022/23	2023/24	2024/25
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	528	534	543
Other long term liabilities (PFI)	92	92	94
Commercial activities/ non-financial investments	13	17	0
Total	633	643	637

Prudential Indicator 5 – The more likely outcome for the level of external debt is shown in the operational boundary which the Council is required to set. This is calculated on the same basis as prudential indicator number 4, however, this is the limit which external debt is not normally expected to exceed

Prudential Indicator	2022/23	2023/24	2024/25
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	460	466	496
Other long term liabilities (PFI)	92	92	94
Commercial activities/ non-financial investments	13	17	0
Total	565	575	590

Prudential Indicator 6 - The estimated external debt is based on the capital programme for 2021/22

Prudential Indicator	2020/21 Actual	2021/22 Estimate
External Debt	£ m	£ m
Borrowing	304	298
Other long term liabilities (PFI)	99	96
Total	403	394

Prudential Indicator 7 - The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments

Prudential Indicator	2022/23	2023/24	2024/25
Borrowing Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	528	534	543
Upper Limit for Variable Interest Rate Exposure	264	267	271
Lower Limit for Fixed Interest Rate Exposure	264	267	272
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Link, however, this limit is never likely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Upper limit for fixed rate exposure

Calculation:

A maximum of 100% of the Authorised Limit (£528m in 2022/23) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

Calculation:

For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£264m in 2022/23) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

Calculation:

Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates

Lower limit for variable rate exposure

Calculation:

To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

Prudential Indicator	2022/23	2023/24	2024/25
Investment Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	250	250	250
Upper Limit for Variable Interest Rate Exposure	250	250	250
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

Upper limit for fixed rate exposure

Calculation:

Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.

Upper limit for variable rate exposure

Calculation:

For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £250m in 2022/23 is recommended.

Lower limit for fixed rate exposure

Calculation:

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Lower limit for variable rate exposure

Calculation:

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Prudential Indicator 9 - The upper and lower limit for the maturity structure of borrowings is detailed below.

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed/Variable Rate Borrowing During 2022/23 **	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

**** Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.**

Prudential Indicator 10 - The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed

Prudential Indicator	2022/23	2023/24	2024/25
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	50	50	50
Internally Managed	70	70	70

Rationale: The limit for the external cash fund manager has been set at £50 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward. This includes the lending to date to local housing associations and future lending to Cornovii Homes.