Telford & Wrekin Co-operative Council
Protect, care and invest to create a better borough

Borough of Telford and Wrekin

Full Council Report

27 February 2025

2025/26 Prudential Indicators

Cabinet Member:	Cllr Zona Hannington - Cabinet Member: Finance, Governance & Customer Service
Lead Director:	Michelle Brockway - Director: Finance, People & IDT
Service Area:	Finance, People & IDT
Report Author:	Edward Rushton - Group Accountant
Officer Contact Details:	**Tel:** 01952 383750 **Email:** edward.rushton@telford.gov.uk
Wards Affected:	All Wards
Key Decision:	Not Key Decision
Forward Plan:	Not Applicable
Report considered by:	Business Briefing – 23 January 2025 Cabinet – 13 February 2025 Full Council – 27 February 2025

1.0 Recommendations for decision/noting:

1.1 Members are asked to:

1) Approve the prudential indicators proposed in this report.

2.0 Purpose of Report

2.1 To consider the prudential indicators for 2025/26 to 2027/28 required under the Prudential Code of Capital Finance in Local Authorities and to approve the indicators for 2025/26.

3.0 Background

3.1 The Treasury Management in the Public Services: Code of Practice (CIPFA, 2021) and the accompanying Guidance Notes set out good practice in treasury management and are complementary to this Code.

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (2021 Edition) (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

The general ongoing principles of the Prudential Code, including the requirement that an authority must not borrow to invest primarily for financial return, applied with immediate effect.

The general approach of the code is to require the Council to set estimates and limits on its borrowing and features associated with borrowing. The underlying philosophy is that the Council should set limits that ensure borrowing is affordable in the medium to long term. Affordability is determined by the overall amount of borrowing and the interest rate at which it is done. Because borrowing is only permissible (and will remain so) for capital expenditure local authorities have traditionally borrowed at longer term fixed rates of interest (i.e. over 1 year). This helps ensure stability over the medium term; for example a variable rate loan currently at 2.5% may be less attractive than a fixed rate loan at 2.8% if there is thought to be a reasonable possibility that variable rates will rise above 3.2% within a year. To help ensure financial stability the code requires authorities to consider the structure of their borrowing.

The code also requires authorities with significant investments to set indicators associated with lending money.

4.0 Summary of main proposals

4.1 Section 5 of the report considers the indicators and recommends what the indicators should be for 2025/26. In most cases indicators have to be provided for 3 financial years ahead, so figures are also provided for 2026/27 and 2027/28. In proposing these indicators a pragmatic approach has been taken; i.e. known Council plans (including the present treasury structure) have been considered therefore, this set of proposed indicators is consistent with the assumptions used throughout the suite of MTFS reports.

For each indicator, ***the CIPFA requirements of the code are set out in bold italics.*** The limits proposed by the Chief Finance Officer for 2025/26 are then set out. An explanation is provided, unless the indicator and limits are completely self-explanatory.

5.0 Prudential Indictaors

5.1 Prudential Indicators of Affordability – Ratio Affordability Measure

The local authority will estimate for the forthcoming financial year and the following two financial years the ratio of financing costs to net revenue stream. This prudential indicator shall be referred to as estimates of ratio of financing costs to net revenue stream.

In Telford & Wrekin's case this indicator makes more sense if Local Government Reorganisation (LGR) debt paid over to Shropshire Council is included***.***

	Year 1 2025/26	Year 2 2026/27	Year 3 2027/28
Ratio of financing cost to net revenue stream	7.85%	9.74%	9.46%

The indicator has been calculated as debt interest costs divided by budget requirement for the general fund element. The general fund indicator above shows a slight increases in the ratio between 2025/26 and 2027/28, which is broadly inline with the expected prudential borrowing noted in 5.5.

5.2 Prudential Indicators of Affordability – Incremental Housing Rent Affordability Measures

This Indicator does not apply to Telford & Wrekin Council as the Council does not operate council housing through a "Housing Revenue Account".

5.3 Estimates of Capital Financing Requirement

The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. These prudential indicators shall be referred to as:

<u>Estimate of capital financing requirement</u> as at the end of years 1, 2 and 3**.**

The capital financing requirement is a concept in the Prudential System, but can simply be understood as the Council's underlying need to borrow money over the long term. The code requires that the figure is calculated gross, to include debt that is paid for by other authorities following Local Government Reorganisation (LGR), so in Telford & Wrekin's case, these figures have limited meaning, and locally the indicator needs adjusting for LGR debt.

The table below shows the estimated cumulative **Capital Financing Requirement (CFR)** at a point in time. These estimates include the impact of the Public Finance Initiative (PFI).

	31/03/25 £m	31/03/26 £m	31/03/27 £m	31/03/28 £m
Estimated Total CFR	592.5	670.6	742.6	782.8

The movement in the CFR is consistent with other planning assumptions.

The purpose of the **Gross Debt and Capital Financing Requirement** is to highlight a situation where the Council is planning to borrow in advance of need. If Gross Debt exceeds CFR (which they don't) they would indicate we are borrowing in advance of need.

	31/03/25 £m	31/03/26 £m	31/03/27 £m	31/03/28 £m
Estimated Outstanding Borrowing (at nominal value)	420.3	502.9	577.0	623.0
Other long term Liabilities	41.2	38.4	38.1	34.3
Gross Debt	**461.5**	**541.3**	**615.1**	**657.3**

5.4 Treasury Management Prudential Indicators

The Council adopted the revised CIPFA Code of Practice for Treasury Management in Public Services at its meeting in March 2010. Treasury Management Practices (TMPs) have been established by the Chief Finance Officer in line with the advice of our Treasury Management Advisors and are kept up to date with support from our Treasury Management Advisors. Although not a formal indicator, the Council must have regard to the Treasury Management Code.

5.5 Capital Expenditure and Capital Commitments Prudential Indicators

The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators shall be referred to as:

Estimate of total capital expenditure to be incurred in years 1, 2 and 3

The Medium Term Financial Strategy and Capital Programme report to Council for 2025/26 identifies programmed capital schemes, and subsequent year's capital needs. The estimates of capital expenditure to be incurred are -

	2025/26 £m	2026/27 £m	2027/28 £m
Prudential Borrowing	82.565	74.147	45.926
Grant Funded	56.477	0.104	0.000
Revenue / External	7.385	0.130	0.000
Capital Receipts	5.136	6.000	0.000
Total	**151.563**	**80.381**	**45.926**

It is only the row relating to prudential borrowing that impacts on prudential indicators. These figures include further investment in NuPlace, the Council's wholly owned Housing Company, and Property Investment Portfolio both of which should generate returns for the Council well in excess of the associated debt charges and in addition to the significant community benefits that these schemes provide.

After the year-end, the actual capital expenditure incurred during the financial year will be recorded. This prudential indicator will be referred to as:

Actual capital expenditure

Actual capital expenditure for 2023/24: £83.485m

Estimated capital expenditure 2024/25: £93.151m

5.6 External Debt Prudential Indicators

Authorised Limit

The local authority will set for the forthcoming financial year and the following two financial years a prudential limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. This prudential indicator shall be referred to as:

<u>Authorised limit for external debt</u> = authorised limit for borrowing + authorised limit for other long term liabilities for years 1, 2 and 3.

The recommended Authorised Limit for External Debt for:

Authorised Limit	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	665.0	745.0	785.0
Other Long Term Liabilities	54.0	54.0	44.0

This limit represents the maximum amount the Council may borrow at any point in time in the year. It has to be set at a level the Council considers is “prudent”. (This limit is analogous to the limit on borrowing set out in section 44 of the 1989 Act). Because it is ultra vires to exceed, the authorised limit must be set so as to avoid circumstances in which the Council would need to borrow more money than this limit.

Other long term liabilities include items that would appear on the balance sheet of the Council that are analogous to borrowing. For example, the capital cost of leases would be included.

Operational Boundary

The local authority will also set for the forthcoming financial year and the following two years an operational boundary its total external debt, gross of investments, separately identifying borrowing from other long term liabilities. This prudential indicator shall be referred to as the:

<u>Operational Boundary</u> = operational boundary for borrowing + operational boundary for other long term liabilities for years 1, 2 and 3.

The operational boundary is a measure of the maximum amount that the Council would normally borrow at any time during the year. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but suggest a sustained or regular pattern of borrowing above this level ought to be investigated, as a potential symptom of a more serious financial problem.

The Recommended Operational boundary for External debt is:

Operational Boundary	2024/25 £m	2025/26 £m	2026/27 £m
External Debt	645.0	725.0	765.0
Other Long Term Liabilities	50.0	50.0	40.0

5.7 Interest Rate Exposure

The local authority will set, for the forthcoming year and the following two years, limits to its <u>exposures</u> to the effects of changes in interest rates. These prudential indicators will relate to both variable interest rates and fixed interest rates and will be referred to respectively as the upper limits on variable and fixed interest rate exposures.

There is no requirement in the code to set lower limits; however, given the risks associated with having excessively high relatively short fixed, or variable rate borrowing, it is suggested that lower limits are set locally for longer maturing fixed rate borrowing.

Variable rate exposures

Borrowing that is at variable rates LESS Investments that are variable rate investments

The limits proposed are as follows;

	2025/26	2026/27	2027/28
Net variable limit	70%	70%	70%

We have also set a local indicator for setting a maximum exposure for variable rates as a percentage of total investment plus total debt. The limit proposed would be as follows;

	2025/26	2026/27	2027/28
Upper limit	70%	70%	70%

Fixed Interest Rate Exposure

Borrowing that is at fixed rates LESS Investments that are fixed rate investments

***Expressed as a percentage or absolute of total borrowing less investments*.**

The limits (expressed as an absolute of total fixed borrowing less total fixed investments) proposed are as follows:

Fixed Rate Risk	2025/26	2026/27	2027/28
Upper limit	100%	100%	100%
Lower limit	30%	30%	30%

In principle, it may be necessary / desirable for all borrowing at a point in time to be at a fixed rate. The lower limit is effectively the counterpart to the upper limit for variable rate exposure.

5.8 Prudential limits for the maturity structure of fixed rate borrowing

The local authority will set for the forthcoming year both upper and lower limits with respect to the maturity structure of its borrowing, calculated as follows

Amount of projected borrowing that is fixed rate maturing in each period Expressed as a Percentage of Total projected borrowing that is fixed rate at the start of the period*, where the periods in question are*

- ***Under 12 months***
- ***1 year and within 2 years***
- ***2 years and within 5 years***
- ***5 years and within 10 years***
- ***10 years and within 20 years***
- ***20 years and within 30 years***
- ***30 years and within 40 years***
- ***40 years and within 50 years***
- ***50 years+***

The proposed prudential limits are as follows;

Maturity	Lower Limit %	Upper Limit %
Under 12 months	0	70
1-2 years	0	30
2-5 years	0	50
5-10 years	0	75
10-20 years	0	75
20-30 years	0	75
30-40 years	0	100
40-50 years	0	100
Over 50 years	0	100

Under the investment guidance issued by Ministry, Housing, Communities & Local Government (MHCLG (previously DLUHC)) the Council needs to set indicators for ***principal sums invested for periods longer than 1 year*****.** It is recommended that we set the following limit -

Maximum principal investment that can be invested for more than 1 year

	2025/26	2026/27	2027/28
Upper limit	95%	95%	95%

6.0 Alternative Options

6.1 The Prudential Indicators are set inaccordance with the requirements of the Prudential Code for Capital Finance in Local Authorities.

7.0 Key Risks

7.1 The Prudential Indicators are set to mitigate risks in relation to Treasury Management Activities.

8.0 Council Priorities

8.1 Effective management of the Council's Treasury portfolio helps support the Council's overall financial position through minimising borrowing costs and optimising investment income whilst following the principles of Security, Liquidity and Yield; and therefore supports the delivery of all Council priorities.

9.0 Financial Implications

9.1 The prudential indicators provide a framework for 2025/26 in which the Council conducts its treasury activities, consistent with good treasury risk management.

The Code indicates that "in all cases, the process of setting prudential indicators for treasury management should be accompanied by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the authority's borrowing and investment portfolios." The indicators proposed here take account of the existing structure of borrowing and all reasonable restructuring activity that might occur.

In setting or revising its prudential indicators, the Council is required to have regard to the following matters:

- service objectives, e.g. strategic planning for the authority,
- stewardship of assets, e.g. asset management planning,
- value for money, e.g. option appraisal,
- prudence and sustainability, e.g. risk, implications for external debt and whole life costing,
- affordability, e.g. implications for council tax, and
- practicality, e.g. achievability of the forward plan.

The first 3 items are largely considered in the current arrangements as part of the asset management planning / corporate capital strategy processes. Item 4 is inherent to the prudential indicator setting process and Items 5 and 6 in financial terms have been taken account of by the Chief Finance Officer in presenting the Medium Term Financial Strategy.

10.0 Legal and HR Implications

10.1 Under s.15 Local Government Act 2003, local authorities are required to have regard to any statutory guidance. CIPFA's Prudential Code for Capital Finance in Local Authorities is considered to be mandatory guidance for the purpose of the LGA 2003 and sets out that prudential indicators must be set annually.

11.0 Ward Implications

11.1 There are no impacts on specific wards in this report.

12.0 Health, Social and Economic Implications

12.1 The Economic Climate has direct relevance to Treasury Management and is covered in detail in the report and accompanying appendices.

13.0 Equality and Diversity Implications

13.1 N/A

14.0 Climate Change and Environmental Implications

14.1 N/A

15.0 Background Papers

1. CIPFA Treasury Management in the Public Services – Code of Practice and cross-sectional guidance notes (2021 edition)
2. CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 edition)
3. Local Government Act 2003

16.0 Report Sign Off

Signed off by	**Date sent**	**Date signed off**	**Initials**
Finance	08/01/2025	08/01/2025	ER
Legal	08/01/2025	13/01/2025	RP
Director	08/01/2025	08/01/2025	MLB