

## Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy statement – 2025/26

### 1 Summary

- 1.1 In addition to revenue and capital budgets presented elsewhere on this agenda, the Authority must also approve a Treasury Management Strategy (TMS) and Prudential Indicators (PIs) before the start of each financial year. This report presents the relevant documents for approval.

**Recommendation that:**

- a** *Members approve the Treasury Management Strategy for 2025/26 as set out in Annex 1;*
- b** *Members approve the Prudential Indicators for 2025/26 as set out in Annex 2;*
- c** *Members approve the MRP Policy Statement set out at Annex 3; and*
- d** *Members authorise the Section 151 Officer to make any required adjustments to the TMS or PIs required as a result of changes to the proposed capital or revenue budgets elsewhere on this agenda.*

### 2 Background

- 2.1 As well as a balanced budget, the Authority must also put in place effective treasury management policies, strategies and practices and set prudential indicators for the coming year. These are key elements of the financial governance framework. Their format and scope are set out within the relevant CIPFA codes as well as DLUHC investment guidance and statutory guidance on minimum revenue provision (MRP).

### 3 Policy Context

- 3.1 In recent years, there have been a small number of high profile cases where Local Authorities were technically compliant with regulations but where they had taken on investment risks disproportionate to their size. Amendments to the Prudential Code were brought in in 2021 to discourage use of local authority powers to borrow where this was for capital investment but made primarily for yield.
- 3.2 The annual approval of TMS and PIs is a regulatory requirement for Local Authorities. In addition, the Authority should have approved a Capital Strategy which also helps to demonstrate compliance with the Prudential Code. The capital strategy is contained within the Budget and MTFS elsewhere on this agenda and confirms that the Authority has no plans to make investments purely for yield.
- 3.3 With the exception of debt which will be recognised in relation to IFRS 16 Lease accounting, the Authority is currently debt free. The proposed revenue budget for 2025/26 is balanced and there is a fully funded capital programme (with the exception of vehicles, see below). It is extremely unlikely that the Authority will need to take on actual borrowings during 2025/26. The Authority may choose to use its cash holdings to pay for vehicles outright rather than leasing, where it is value for money to do so, and the PIs have been set to accommodate this. This would result in an accounting treatment similar to a scenario where the authority is using its own funds to lease to itself. It would have no net impact on the revenue account. Resources Committee on the 7<sup>th</sup> March 2025 granted the S151 officer the delegation to decide on lease vs buy options on fleet up to a maximum £425k acquisition cost. £400k has been included in the capital programme on this basis.

- 3.4 Although the elements of the TMS and PIs focussed on borrowing are important, the underlying level of risk to the Authority around borrowing operations is minimal.
- 3.5 The TMS also includes a proposed increase to the investment limit for Money Market Funds, from £5m to £6m. This allows greater use of our most secure (AAA), same-day withdrawal investment fund.
- 3.6 The indicators may need revising once the actual calculations for IFRS16 have been completed as part of the 2024/25 final accounts process. Any amendments will be brought back to the subsequent Authority Committee for approval.

## **4 Options**

- 4.1 Members can choose to endorse the proposals as described in this report or may choose to make specific alterations; any amendment would need to be made with reference to regulatory guidance and advice of the S151 Officer. It is a regulatory requirement for full Authority to approve a TMS, PIs and MRP policy statement which have been prepared with regard to the relevant guidance.

## **5 Proposals**

- 5.1 The Annexes to this report set out detailed proposals for the TMS, PIs and MRP policy statement.

## **6 Best Value Implications**

- 6.1 There are no direct value for money implications.

## **7 Financial Considerations**

- 7.1 The TMS , PIs and MRP Policy statement are included in Annexes 1 to 3. These are regulatory requirements and form a key part of the Authority's financial governance arrangements. The selection of investment counterparties that have a strong credit rating may result in investments earning a lower rate of interest than investments with lower rated counterparties. The proposals are consistent with the Authority's low risk appetite in relation to potential investment losses.

## **8 Risk**

- 8.1 The TMS, PIs and MRP Policy statement are specifically designed to manage risks around borrowing and investment. There is no inherent risk in setting the policies other than ensuring they are materially compliant with the relevant Codes and DLUHC guidance.

## **9 Legal Considerations**

- 9.1 The recommendations in this report comply with the Authority's statutory requirement to formalise its intentions as regards treasury management and prudential limits before the start of the next financial year.

## **10 Human Resources**

- 10.1 There are no human resources implications as a direct result of this report.

**11 Diversity**

11.1 There are no diversity implications as a direct result of this report.

**12 Sustainability**

12.1 There are no sustainability implications as a direct result of this report.

Background Papers

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Date Written

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## **Annex 1: Treasury Management Strategy 2025/26**

### **1 Key Principles**

- 1.1 The Authority has put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
- 1.2 These policies and practices make clear that the effective management and control of risk are prime objectives of the treasury management activities and that responsibility for these lies clearly within the organisation. Risk considerations are part of the annual strategy and ensure that priority is given to security and liquidity when investing funds.
- 1.3 The Authority acknowledges that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools to employ in support of business and service objectives; and that within the context of effective risk management, our treasury management policies and practices should reflect this.
- 1.4 In relation to other Local Authorities the LDNPA treasury position is relatively simple. The CIPFA Code requirements apply to all scales and nature of local authority. The LDNPA strategy focusses on compliance with key elements of the Code that are relevant to its context as a relatively small, debt free authority with a low risk appetite around investment and borrowing activity.

### **2 Treasury Management Policy Statement**

- 2.1 The Authority defines its treasury management activities as the management of its investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 2.2 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 2.3 The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

#### **Borrowing Objectives**

- 2.4 Other than debt which will be recognised following the implementation of IFRS 16 Lease Accounting, the Authority is currently debt free. Short term borrowing may be considered to manage daily cash flows and we may also consider entering into further leases where a financial evaluation evidences that it prudent to do so. We may also consider use of internal borrowing where outright purchase is value for money but where no capital resource is available. Longer-term borrowing may also be considered to support elements of the capital programme, in line with the Capital Strategy.

Based on the capital and revenue budgets for 2025/26, it is extremely unlikely that any borrowing will be taken on during 2025/26. However, in the event that borrowing is undertaken, our borrowing objectives for 2025/26 are to:

- Minimise the revenue costs of any borrowing within the context of ensuring a prudent provision is made for repayment of debt (MRP)
- Undertake any new borrowing in the year at the cheapest cost commensurate with future risk.
- Proactively manage the timing of debt repayment to ensure that it does not cause cash difficulties
- Forecast future interest rates and, where possible, undertake borrowing accordingly
- Monitor and review the level of variable interest rate loans in order to take greater advantage of any favourable interest rate movements

### **Investment Objectives**

- 2.5 The Authority invests surplus cash balances to maximise investment returns once the primary aims of maintaining the security and liquidity of our funds have been met. Our investment objectives for 2025/26 are to:
- Balance the returns from investment against the underlying risk with a view to maintaining capital security and having liquidity to meet the cash needs of the Authority.
  - Compare the level of return obtained by internal investment with market rates.

### **Interest Rate Forecasts for 2025/26**

- 2.6 The Bank Rate at the time of writing is 4.5% following a modest decrease in the rate over the past 12 months. Forecasts for interest rates are heavily dependent on expectations for economic growth and the rate of inflation. The Bank will alter interest rates as required so as to encourage growth whilst attempting to return inflation to within tolerance of its 2% target. CPI was above that target at 3% in January 2025 with the Bank of England now forecasting it to be 2027 before rates return to target. Taken together, the assumption that interest rates are on a moderate, downward trend is still reasonable. Firm predictions for interest rates are difficult. Increased volatility at a global level, for example around trade tariffs, also has the potential to impact on the UK economic outlook.
- 2.7 Bank of England interest rate forecasts will continue to be monitored throughout the year, and any treasury management activity will, as far as possible, take account of prevailing and forecast interest rates at the time of deposit.

### **Capital Financing Strategy**

- 2.8 Under the Prudential Code for Capital Finance in Local Authorities, the Authority has powers to borrow to finance capital expenditure. For 2025/26 the Authority will continue to finance the bulk of its capital expenditure from capital receipts, capital grants and reserve contributions. Leases will also be considered when it is prudent to do so. Under IFRS 16 new leases may be presented for accounting purposes, as an increase in debt. The Authority may also consider outright purchase rather than lease on the assumption of use of internal cash.

### **Borrowing Strategy**

- 2.9 **Long Term Borrowing.** The Authority currently plans to fund its planned annual capital expenditure from grants, capital receipts or revenue funding over the medium term. If available capital resources in any given year are insufficient to fund the

approved capital programme, borrowing may be considered where this is in line with the Capital Strategy and Prudential Code.

2.10 To support the implementation of the Commercial Strategy, it may become necessary for the Authority to undertake long term borrowing. Borrowing will only be considered where

- the initiatives involve expanding service provision and/or on activities relevant to the Authority’s statutory purposes.
- where a robust business case has been developed and
- the magnitude of the investment is proportionate to the size of the Authority.

Any actual borrowing would be undertaken prudently, in line with prevailing interest rate forecasts and would be for an appropriate duration commensurate with the life of the relevant asset or scheme.

2.11 **Short Term Borrowing.** The Authority may also undertake short term borrowing of less than 12 months to manage capital cash flows and may consider the use of leases where it can be demonstrated that it is financially advantageous to do so.

2.12 **Interest Rate Exposure.** With the current profile of expected borrowing activity, all of the Authority’s borrowing could be at fixed or variable rates without subjecting the Authority to unreasonable risk. Table 1 sets our limits on interest rate exposure. Wherever possible, borrowing will be timed to take account of forecasts for interest rates.

**Table 1: Limits on Interest Rate Exposure**

Upper limit on:	2023/24 actual	2024/25 revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Fixed Rate Borrowing	N/A	N/A	100%	100%	100%
Variable Rate Borrowing	N/A	N/A	100%	100%	100%

2.13 **Maturity.** Borrowing is said to “mature” at the point that the loan period terminates and the total loan is repaid. With the borrowing profile set out above, the Authority could manage 100% of its repayments at the end of any reasonable timescale in relation to the life of the asset without risking significant exposure. Table 2 sets the maturity profile limits for borrowing for the Authority. These limits relate to all estimates from the 2024/25 Original Estimate through to the 2027/28 Estimate.

**Table 2: Maturity Profile of Borrowing 2024/25 to 2027/28**

	Upper Limit	Lower Limit
Under 12 Months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

### 3 Treasury Management Investment Strategy

3.1 The Local Government Act 2003, section 15(1) requires the Authority to approve an Investment Strategy as part of its wider Treasury arrangements. The Department for Levelling Up, Housing and Communities (DLUHC) has issued guidance which requires, as a minimum, that the areas below should be covered.

## **General Policy**

- 3.2 The overriding principle of the guidance is that the Authority should invest prudently and, in doing so, safeguard the funds vested for the benefit of the public. This has always been a cornerstone of this Authority's approach to investing public funds, as described in the 'Key Principles' of this Treasury Management Strategy. This approach is also central to the CIPFA Treasury Management Code of Practice, which the Authority adopted several years ago.
- 3.3 The Authority's primary objective and approach to managing investment risks will be to consider the security of investments. The secondary objective will be to consider the liquidity of investments. Only after both these objectives have been satisfied will the Authority then consider the yield from investments.
- 3.4 Borrowing purely to invest in advance of any need to make a return is unlawful and will not be undertaken by the Authority.

## **Investment Counterparty Selection Policy**

- 3.5 In support of the overriding principle of safeguarding the security of invested sums, the Authority will adopt the following approaches: -
- (i) It will maintain and keep updated a policy to cover the types of investment which will be undertaken, in accordance with the statutory guidance. This is set out below at section 3.6
  - (ii) It will maintain and keep updated, selection criteria to ensure that the Authority's investments are placed only with the most creditworthy institutions, which is set out at section 3.9.
  - (iii) It will maintain and keep updated a schedule of time and money limits on individual investments which will both place a 'cap' on the investment exposure to individual counterparties and help manage the liquidity of the overall investment portfolio. This is also set out at section 3.9.

## **'Specified' and 'Non Specified' Investments**

- 3.6 DLUHC guidance classifies all investments as either 'Specified' or 'Non Specified'. Specified investments offer high security and high liquidity and are generally defined as follows: -
- (i) They are sterling denominated instruments
  - (ii) They have a maximum maturity of 364 days.
  - (iii) They are made with a body with a high credit rating as awarded by a Credit Ratings agency, and which meets or exceeds the Authority's minimum investment criteria as described in section 3.9.
- 3.7 The Authority considers the following to be 'Specified' investments: -
- (i) Major UK banks
  - (ii) The top 10 UK building societies by asset size
  - (iii) AAA rated Money Market Funds
  - (iv) Government gilts and Debt Management Office (DMO)
  - (v) Local Government Bodies
- 3.8 Any investment which does not meet the definition of 'Specified' as described above is classified as 'Non Specified'. Non Specified investments are not prohibited, but the guidance requires such investment types to be set out in more detail, with suitable limits to reduce any exposure to risk. The minimum investment criteria in section 3.9 effectively rule out non-specified investments.

### Approved Investment Counterparties & Limits

- 3.9 In support of the Authority’s Investment Counterparty Selection Policy at para 3.5 and the Authority’s determination to invest in organisations which have a high credit rating, the Authority will only invest in banks and other financial institutions which meet the following minimum Credit Rating criteria, using the Fitch credit rating agency system. Individual investments made by the Authority will be subject to the individual limits shown in Table 3 below.

**Table 3: Investment Counterparty Limits**

Institution type	Minimum Fitch Long Term Rating / Fund Rating	Time Limit	Money Limit (£m)
Major UK Banks (including part nationalised)	A	364 days	2
Major Building Societies	A	364 days	1
Money Market Funds	AAA	N/A	6
UK Gilts and Debt Management Office	n/a	364 days	5
Local Authorities	n/a	364 days	1

- 3.10 The Authority will monitor the financial health of all relevant ‘Specified’ investments to ensure that they continue to meet the above minimum criteria. Investments may temporarily exceed the monetary limit due to the receipt of interest or the need for a small working balance.

### Interest Rate projections and 2025/26 Investment Activity

- 3.11 At the time of writing, the official Bank Rate is at 4.5%. Current predictions are for there to be modest rate decreases during 2025.
- 3.12 The Authority’s Investment Income budget for 2025/26 is £145k, which represents a £15k reduction to 2024/25. This is based on a assumed reduction in interest rates. The focus will remain on holding investments with low risk counterparties in accordance with this strategy.

## 4 Sources of Capital Finance

- 4.1 The following paragraphs explain the types of borrowing that could be used to finance short term cash shortfalls, or finance capital expenditure in 2024/25. Table 4 shows the type of interest rate which could be used in each case, depending on the prevailing economic conditions:-

**Table 4: Terms and Sources of Capital Finance**

	Fixed Rates	Variable Rates
Overdraft Facility	✓	✓
Money Market and private finance (ie non-PWLB)	✓	✓
Public Works Loans Board	✓	✓
Use of Internal Funds (reduction of investment balance)	✓	✓
Leasing	✓	✓

## **Public Works Loans Board (PWLB)**

- 4.2 The Public Works Loans Board (PWLB), which is a statutory body operating within the Debt Management Office, an executive agency of the Treasury, is the main source of long term finance to many public sector organisations because the Board's interest rates are generally less expensive than other sources. However, they only offer loans for one year or more and as a result we would only be able to use them if we decided to take up long term borrowing during the year.

## **Money Market Loans – Short Term and long term**

- 4.3 Temporary money market loans could be raised as required on a day to day basis. In addition, although the PWLB is the likely source of long term funding, other sources of funding would be considered for long term loans if these were value for money.

## **Overdraft**

- 4.4 An overdraft facility may be requested from NatWest, subject to our credit standing being satisfactory. Rates tend to operate at a specified percentage above the official bank rate. It is anticipated that this facility will only be used for short-term cash flow management.

## **Internal**

- 4.5 Internal funds can be used as a substitute for external borrowings to finance capital spending or short term cash shortfalls. Use of these funds will be considered alongside external borrowing costs to establish the most cost effective short term financing options available to us.

## **Leasing**

- 4.6 Leases will be considered if they prove to be advantageous in financial terms. Under IFRS 16, from 1/4/2024 the present value of the cash flows for qualifying, new leased asset will be recognised as capital expenditure funded through borrowing. The Authority will consider lease vs buy on value for money terms for all new leases.

## **5 Policy on Interest Rate Exposure**

- 5.1 The Treasury Management Code requires the Authority to fix each year the maximum of interest on borrowing which is subject to variable rates and is known as the 'Upper Limit on Variable Interest Rates'. It is anticipated that, due to the low level of likely 2025/26 borrowing, 100% could be at variable rates without exposing the Authority to undue risk, as set out in Table 1.
- 5.2 The proportion of fixed and variable rate interest will depend on forecasts for interest rates during the period under review. Maximum borrowing will be undertaken at fixed rates when interest rates are considered to be at their lowest and on a variable basis when interest rates are expected to fall.

## **6 Policy on External Fund Managers**

- 6.1 It is not current policy to appoint external fund managers to manage the investment of the Authority's surplus funds. Treasury activity on a day to day basis concentrates on lending short term surplus funds. We have no investments in excess of 364 days that would benefit from being contracted out for external fund management.

## **7 Delegated Powers**

7.1 The delegated powers relating to Treasury Management will be undertaken within the framework of the Authority's Financial Regulations which provide that:-

- The Authority adopts CIPFA's revised Code of Practice for Treasury Management in Local Authorities.
- This Authority adopts a treasury management policy statement setting out matters required by the revised Code of Practice for Treasury Management in Local Authorities.
- All money in the hands of the Authority is under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972.
- As part of the treasury management policy statement the S151 Officer will report to the Authority on the strategy for treasury management it proposes to adopt for the coming financial year.
- All executive day to day decisions on borrowing, investing, banking or financing are delegated to the S151 Officer who is required to act in accordance with CIPFA's Code of Practice for Treasury Management in Local Authorities and the Authority's financial regulations.
- The S151 Officer will report to Members each financial year on the activities of the treasury management operation and on the exercise of delegated treasury management powers. This will be in the form of an annual report on treasury management to be included as part of the final outturn report to Authority.
- Should the S151 Officer wish to depart in any material respect from the main principles of the code, the reasons should be disclosed in a report to the Authority.
- All loans will be effected in the name of the Lake District National Park Authority
- The S151 Officer will maintain adequate records of all borrowings of money by the Authority.
- All investments will be effected in the name of Lake District National Park Authority and any documents of title will be held by the S151 Officer for safe custody.

## **8 Review, Performance and Reporting Arrangements**

8.1 Performance monitoring of the Treasury Management function will be implemented by adopting the following reporting procedures as a minimum:-

- Authority will receive the Annual Treasury Management Strategy and Annual Prudential Limits report for the forthcoming year.
- In year monitoring will be presented to Resources Committee
- An Annual Treasury Management Report, detailing the previous year's outturn will be presented as part of the final outturn to Authority, usually no later than 30 September.

8.2 The prudential indicators will be measured during 2025/26 and reported to Authority and Resources Committee as appropriate.

## **Annex 2: Prudential Indicators**

### **1 Key Principles of the Prudential Code**

1.1 The Prudential Code states that a soundly formulated capital programme must be driven by the desire to provide high quality, value for money public services. In making decisions to undertake a capital investment, the Authority must have explicit regard to:

- affordability
- prudence and sustainability of capital financing decisions
- option appraisal
- asset management planning
- strategic planning for the authority
- achievability.

### **2 Prudential Indicators**

2.1 The key objectives of the Prudential Code are to ensure that the Authority's capital investment plans support strategic local planning and proper options appraisal. It aims to ensure that within a clear framework:

- capital spending and investment plans are affordable and proportionate, and meet the strategic objectives of the organisation
- borrowings and other long term liabilities are within prudent and sustainable levels
- the risks associated with commercial investments are proportionate to the Authority's financial capacity
- treasury management decisions comply with professional good practice
- decisions are made within a clear and transparent framework of accountability and are subject to effective options appraisal.

2.2 To demonstrate this, the Prudential Code requires the Authority to set and monitor performance on a suite of performance indicators under the following headings:

- Prudence in borrowing and investment
- Capital expenditure
- External debt
- Affordability

2.3 The Authority is required to approve its prudential indicators before the start of the financial year. The detailed prudential indicators for this Authority for 2025/26 and future years are set out in this annex, which also contains explanatory notes based on the latest guidance from CIPFA.

2.4 Indicators for future years are a requirement of the Code and are based upon projected levels of income and spending in those years. They are indicative figures only. Members will revise their future projections with each annual budget setting process.

2.5 The indicators in the "2024/25 Revised" columns in each table provide an update on the Authority's performance against our 2024/25 indicators for Members' information, and performance for our last full financial year 2023/24. This is a requirement of the Code.

2.6 The Prudential Indicators reflect either an actual or estimated financial position for the Authority or a limit on activity to be set by the Authority. Once set before the beginning of the financial year, these limits can only be exceeded with approval from the Resources Committee.

2.7 The Authority is currently debt free and these prudential indicators set out parameters for external borrowing based on requirements for cash flow and balance sheet management. They will need to be reviewed by Resources Committee and updated as necessary to reflect any new borrowing requirements emerging from the Capital and the Commercial Strategies and the implementation of IFRS 16 on leasing.

### 3 Prudence in Borrowing and Investment

#### Indicator 1: Adoption of the Code of Practice for Treasury Management

3.1 The Lake District National Park Authority has adopted the *CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectional Guidance Notes*.

#### Indicator 2: Gross debt and the capital financing requirement

3.2 In order to ensure that over the medium term debt will only be for a capital purpose, we are required to ensure that total gross debt 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. This is a key indicator of prudence. We are debt-free and have no specific plans to borrow. Should the need for borrowing arise, we will be guided by the Prudential Code and demonstrate affordability through these Prudential Indicators and any subsequent revisions.

	2023/24 Actual £000	2024/25 Revised Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
<b>Gross Debt, made up of:</b>	0	1,000	1,000	1,000	1,000
External Borrowing to fund Capital Programme*	0	0	0	0	0
Long Term Credit Arrangements (IFRS16 Leases)	0	1,000	1,000	1,000	1,000
<b>Capital Financing Requirement*</b>	0	1,000	1,400	1,350	1,300

\*Assuming £400k of internal borrowing used to buy fleet, then reducing c£50k annually due to MRP

### 4 Prudential Indicators for Capital Expenditure

#### Indicator 3: Actual and Estimated Capital Expenditure

4.1 Under this indicator, we are required to publish estimates of capital spending over the next three years. This is shown in the table below.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Expenditure	844	968	983	163	235

### Indicator 4: Capital Financing Requirement

4.2 The adoption of the International Financial Reporting Standard 16 on leasing on 1 April 2024 requires that liabilities (future rental payments) associated with any leases brought onto the Balance Sheet are included in Capital Financing Requirement calculations in recognition of the underlying need for the equivalent to borrowing. This is a presentational change only. All other capital expenditure is expected to be funded by revenue contributions, capital grants or capital receipts, with the exception of fleet which is currently leased, where there is a value for money case for buying out-right.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Funding Capital Programme*	0	0	400	350	300
Long Term Credit Arrangements (IFRS16 Leases)	0	1,000	1,000	1,000	1,000
Capital Financing Requirement	0	1,000	1,400	1,350	1,300

\*Assuming £400k of internal borrowing used to buy fleet, then reducing c£50k annually due to MRP

## 5 Prudential Indicators for External Debt

### Indicator 5: Authorised Limit

- 5.1 This indicator sets the Authorised Limit for our total external debt and other long term liabilities. Apart from presentational changes required under IFRS 16 we are currently debt free, this indicator reflects that we may need to use short term borrowing tools to manage our daily cash flows. Additionally, we may choose to enter into finance leasing arrangements if it is considered prudent to do so – these would be long term liabilities for us.
- 5.2 The Authority is asked to approve these limits and to delegate authority to the Director of Visitor Services & Resources to effect movement between the limits for external debt and other long term liabilities in accordance with the principles of option appraisal and best value. Any such changes would be reported to the next meeting of the Resources Committee.
- 5.3 The Authorised limit proposed for 2025/26 represents the statutory limit determined under section 3(1) of the Local Government Act 2003. The limits are based on the estimate of the most likely, prudent but not worst case scenario, with some headroom to allow flexibility as recommended by the Prudential Code. Risk analysis and risk management have been taken into account as have plans for capital spending, the capital requirement and the estimates of cash flow requirements.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Borrowing	600	800	800	800	800
Long term lease Liabilities	0	1,000	1,000	1,000	1,000
<b>Authorised Limit</b>	<b>600</b>	<b>1,800</b>	<b>1,800</b>	<b>1,800</b>	<b>1,800</b>

### Indicator 6: Operational Boundary

- 5.4 This indicator sets the operational boundary for our total external debt and other long term credit arrangement liabilities. The proposed operational boundary represents the maximum level for our external debt based on the same estimates as the Authorised Limit but excluding the additional headroom included that had been included to allow for exceptional cash movements.
- 5.5 These limits are based on the estimate of the most likely, prudent but not worst case scenario with some headroom to allow flexibility as recommended by the Prudential Code. Risk analysis and risk management have been taken into account as have plans for capital spending, the capital requirement and the estimates of cash flow requirements.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Borrowing	0	0	0	0	0
Long term lease Liabilities	0	1,000	1,000	1,000	1,000
<b>Operational Boundary</b>	<b>0</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

### Indicator 7: Actual External Debt

- 5.6 The prudential indicator for actual external debt considers a single point in time and hence is only directly comparable to the authorised limit and operational boundary at that point in time.

	2023/24 actual £000	2024/25 revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Actual / Est Gross Debt – lease liabilities	0	1,000	1,000	1,000	1,000
Actual / Est Gross Debt – external borrowing	0	0	0	0	0
Total	0	1,000	1,000	1,000	1,000

## 6 Affordability Indicators

### Indicator 8: Ratio of Net Financing Costs to Net Revenue Streams

- 6.1 This indicator shows net capital financing costs (interest costs and MRP) as a percentage of non-specific grant funding streams. For authorities with long-term borrowing this would be a major indicator of the affordability of their borrowing arrangements. While we have no plans to borrow to fund capital expenditure the introduction of IFRS16 requires the Authority to provide an MRP and include this and associated interest within financing costs for the purposes of this indicator. Financing costs also include interest income from managing our daily cash flow balance. As a result of current interest rates this indicator shows that net financing costs make a positive contribution to our revenue account.

	2023/24 Actual £000	2024/25 Revised £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Net Financing Costs	(217)	(90)	15	30	40
Net Revenue Streams	5,590	5,840	5,087	5,087	5,087
<b>Ratio of Financing Costs to Revenue Streams</b>	<b>(3.88%)</b>	<b>(1.54%)</b>	<b>0.29%</b>	<b>0.59%</b>	<b>0.79%</b>

This also reflects the impact of £400k of fleet vehicles purchased through internal borrowing.

**Indicator 9: Estimates of Net Income from Commercial and Service Investments to Net Revenue Stream**

6.2 Net income from commercial and service investments comprises net income from financial investments (other than treasury management investments), together with net income from other investment assets, such as commercial property. For the purposes of this indicator, the income mainly relates to property rents. Further disclosures around the level of contribution from Visitor Services is included in the main budget and MTFs report.

	<b>2023/24 Actual £000</b>	<b>2024/25 Revised £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
Net Commercial Income	382	453	489	517	523
Net Revenue Streams	5,590	5,840	5,087	5,087	5,087
<b>Ratio of Net Receipts to Revenue Streams</b>	<b>7%</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>

**Indicator 10: Incremental Impact of Capital Decisions on the Council Tax**

6.3 We do not currently raise money through the Council Tax and therefore the indicator has not been calculated.

## **Annex 3: Minimum Revenue Provision (MRP) Policy Statement**

### **1 Policy on Minimum Revenue Provision (MRP)**

- 1.1 In line with the statutory guidance on minimum revenue provision, before the start of each financial year a local authority should prepare a statement of its policy on making Minimum Revenue Provision (MRP) in respect of that financial year and submit it to full Authority for approval. To date, the Authority has been debt free and so has had no MRP liability.
- 1.2 Under IFRS 16, accounting for leases has changed with effect from 1/4/2024. This will result in debt on the Authority's balance sheet relating to the lease liabilities recognised under the new accounting treatment. This will generate an associated requirement to repay that debt through MRP. The authority will calculate MRP as the loan repayment element of the discounted cash flow calculation, which brings the lease liability to zero over its life. This is in line with the statutory MRP guidance. This will mean that charges to the revenue account overall are unaltered, with a rental payment charge replaced with an interest charge and an MRP (repayment of debt) charge.
- 1.3 The authority may internally borrow to purchase outright fleet vehicles, in preference to a lease arrangement. Any unfunded capital expenditure would incur an MRP charge calculated in line with the asset life method, based on straight line repayment of the debt over the life of the asset. Where debt relates to capitalised expenditure, the straight line asset life method will be adjusted in line with the statutory guidance relating to capitalised expenditure.