

Prudential Indicators

A. Capital Expenditure Plans

1. The Council's capital expenditure plans are the key driver of treasury management activity. Estimates of capital expenditure for the period 2020/21 to 2024/25 based on the Council's draft Capital Programme are summarised below and this forms the first of the prudential indicators. The revenue consequences of associated borrowing and any on-going maintenance costs are accommodated within the Council's revenue budgets.
 2. Capital expenditure can be paid for immediately, by applying capital resources such as capital receipts, capital grants, external funding or revenue contributions, but if these resources are insufficient any residual expenditure will be covered by Prudential Borrowing and will add to the Council's borrowing need, or Capital Financing Requirement (CFR).
 3. The expenditure is split over three areas:
 - Commercial Activities / Non-financial investments
 - Other General Fund
 - HRA
- 245 Estimates of resources such as capital receipts may be subject to uncertainty i.e. anticipated asset sales may be postponed or reduced due to changes in the property market or planning issues.
5. Elsewhere on the agenda the draft Capital Programme is recommended for approval. The table below summarises the proposed expenditure and how it will be financed. Any shortfall of financing results in a borrowing need.

B. Affordability

7. This indicator represents the estimate of the ratio of financing costs to the net revenue stream for both the HRA and General Fund. The General Fund has net interest income and so the indicator is interpreted such that the larger the percentage figure becomes, the more reliant the General Fund is on the net interest income. Note that this includes both investment income and borrowing costs.
8. The HRA has net interest expenditure and this indicator is interpreted such that the larger the negative percentage figure becomes, the more HRA resources are used to finance the net debt costs.

Table 3:- Ratio of Financing Costs to Net Revenue Stream

General Fund	2020/21 Actuals £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Net Interest Income	-3,940.21	-4,556.61	-4,921.09	-4,159.50	-4,630.96	-4,858.64
Revenue stream	-52,826.00	-23,647.60	-22,382.43	-20,080.68	-20,769.13	-21,477.46
Ratio	7.5%	19.3%	22.0%	20.7%	22.3%	22.6%
Housing Revenue Account	2020/21 Actuals £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Item 8 Borrowing interest	7,701.72	7,984.27	8,990.06	10,895.19	12,422.19	12,789.26
Item 8 Investment income	-206.25	-132.47	-275.68	-424.86	-544.20	-663.54
Net financing cost	7,495.47	7,851.80	8,714.38	10,470.33	11,877.99	12,125.72
Revenue stream	-45,457.98	-46,649.00	-47,882.00	-50,774.00	-55,713.00	-58,636.00
Ratio	-16.5%	-16.8%	-18.2%	-20.6%	-21.3%	-20.7%

It should be noted that the net cost of borrowing within the HRA increases over the MTFP period from 16.8% of the HRA revenue stream at the end of 2021/22 to an estimated 20.7% at the end of 2025/26. A 40 year HRA business plan is maintained for the HRA which shows that this level of borrowing is affordable. This will need to be closely monitored going forwards to ensure that the level of HRA debt does not become unaffordable.

C. The Council's Borrowing Need (the Capital Financing Requirement)

9. This prudential indicator relates to the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above in Table 1, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
10. The CFR does not increase indefinitely, as the minimum revenue provision (MRP), which is a statutory annual revenue charge, reduces the indebtedness broadly in line with each asset's life, and so charges the economic consumption of capital assets as they are used.
11. The table also shows the amount of the CFR which is needed to finance the "commercial activities" / non-financial investments.

Table 4:- Estimates of capital financing requirement (underlying need to borrow for a capital purpose)

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	2020/21 Actuals £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Commercial Activities / Non-financial investments	0	0	0	0	0	0
Other General Fund	64,772	96,060	126,280	135,414	178,073	183,761
General Fund	64,772	96,060	126,280	135,414	178,073	183,761
HRA	224,725	263,888	333,807	456,752	481,235	488,189
Total CFR	289,497	359,948	460,087	592,166	659,308	671,950
Movement in CFR	45,764	70,451	100,139	132,079	67,142	12,642
Movement in the CFR represented by:						
Net Financing need for the year	45,801	70,946	123,588	149,432	83,260	15,005
Repayment of debt	0	-305	-23,195	-15,957	-14,326	0
Less MRP	-37	-190	-254	-1,396	-1,792	-2,363
Movement in CFR	45,764	70,451	100,139	132,079	67,142	12,642

D. Core Funds and Expected Investment Balances

12. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or used on other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 5:- Core Funds and Expected Investment Balances

Estimated Year End Resources	2020/21 Actuals £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Fund Balances & Reserves	121,277	93,777	93,777	93,777	93,777	93,777
Capital Receipts & Grants	19,151	19,151	19,151	19,151	19,151	19,151
Provisions	9,161	9,161	9,161	9,161	9,161	9,161
Other	-24,816	-1,816	-1,816	-1,816	-1,816	-1,816
Total Core Funds	124,773	120,273	120,273	120,273	120,273	120,273
Working Capital *	42,356	27,656	10,656	10,656	10,656	10,656
(Under) / Over Borrowing **	-90,677	-116,127	-99,266	-99,346	-99,488	-100,130
Expected Investments ***	76,452	31,802	31,663	31,583	31,441	30,799

* Working capital balances shown are estimated year-end; these will normally be higher mid-year

** Under / Over Borrowing is the difference between the Council's CFR and external borrowing. The Council maximises use of internal balances where possible to reduce borrowing costs. A level of cash resource must be maintained to ensure that cashflow variations during the year can be accommodated.

***This is the level of expected investments at the end of the year; during the year these will often be much higher due to cashflows.

E. External Debt and Treasury Management

13. The Council's forward projections for borrowing are summarised below. The table shows the anticipated external debt against the underlying capital borrowing need, the CFR.

Table 6:- Debt against Underlying Borrowing Need

External Debt	2020/21 Actuals £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Debt at 1st April	198,820	198,820	243,820	360,820	492,820	559,820
Expected Change in Debt	0	45,000	117,000	132,000	67,000	12,000
Expected Debt at 31 March	198,820	243,820	360,820	492,820	559,820	571,820
CFR	289,497	359,948	460,087	592,166	659,308	671,950
Under / (Over) Borrowing	90,677	116,128	99,267	99,346	99,488	100,130

14. The Council must set an operational boundary which is the limit beyond which external debt is not normally expected to exceed. This will be lower than the CFR where the Council uses internal resources to finance borrowing (i.e. is under borrowed). The authorised limit is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not necessarily sustainable in the longer term. This is set here at the level of the CFR to allow for flexibility depending on what happens with borrowing rates and to allow for borrowing in advance where this is supported by the capital plans or the CFR. The authorised limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 7:- Limits to borrowing activity

	2019/20 Actuals £000's	2020/21 Forecast £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Authorised limit	363,894	532,111	662,122	662,122	662,122	662,122
Operational boundary	302,865	307,490	423,525	525,924	601,385	662,122

16. This following indicator links to the Non Specified investments in Appendix 1

Table 10:- Upper limit for principal sums invested for periods longer than 365 days

	2020/21 Actuals	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Upper limit for investments for periods longer than 365 days	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%	Higher of £30m and 30%