

## Prudential Indicators

### NOTE

Prudential Indicator figures for 2021/22 are based on figures which are still subject to audit.

### Definitions

#### **Service Investments**

The Prudential Code requires Councils to provide prudential indicators in respect of service investments separate from treasury investments but does not provide a specific definition of what a service investment includes. There is a danger that these could be taken to include all of the activities of the Council. It is important therefore that service investments, for the purposes of the prudential indicators, are strictly defined. For these indicators, service investment the definition used is as follows:

A transaction which is directly involved in or results in the delivery of a service, results in a balance sheet asset and which arises from the use of a loan or provision of funding and that is repayable at some point in the future.

#### **Commercial Investments**

In the Prudential Code guidance, CIPFA considers that “an investment that is not a service investment and is of a long-term nature (e.g. equities, commercial properties, long-term bonds, or pooled funds of these investments) is likely to be a ‘commercial investment’ if made by an authority that is a net borrower, because an authority that has a cash need to borrow is unlikely to have surplus cash for long enough to justify such long-term investments.” Therefore, for the purposes of the treasury management strategy and the prudential indicators, the Council’s investments in Property and Multi-Asset Funds are considered to be “Commercial Investments”. It should be noted that holding these investments does not adversely affect the Council being able to borrow from the Public Works Loans Board (PWLB).

#### **Net revenue stream**

According to the Prudential Code, estimates for net revenue stream for current and future years should be the local authority’s estimates of the amounts to be met from government grants and local taxpayers, using the equivalent figures from the local authority’s original/revised budget where available. Estimates and actuals should therefore exclude capital grants, contributions and donated assets. Since there are many general grants which are one-off in nature, for the purposes of these indicators only grants which are ongoing over the medium term will be included in these figures.

## 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 2023/24 to 2026/27 based on the Council's draft Capital Programme are summarised below, along with the figures for the previous year and forecast for the current year, 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 Investments
  - Service Investments
  - Other General Fund
  - HRA
4. A table showing the overall position and also separate tables for each of the General Fund and Housing Revenue Account are included,
5. 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.
6. 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.

**Table 1:- Capital Expenditure and Financing – Overall**

<b>Overall</b>	<b>2021/22 Actuals £000's</b>	<b>2022/23 Forecast £000's</b>	<b>2023/24 Estimate £000's</b>	<b>2024/25 Estimate £000's</b>	<b>2025/26 Estimate £000's</b>	<b>2026/27 Estimate £000's</b>
<b>Commercial investments</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Service Investments</b>	8,804.4	18,829.9	46,554.8	14,569.7	34,147.1	12,256.9
<b>Other General Fund</b>	25,060.7	35,786.5	70,465.9	40,440.5	47,109.0	12,669.0
<b>HRA</b>	44,153.6	54,870.8	117,567.5	129,040.7	44,059.0	196,649.2
<b>Total expenditure</b>	<b>78,018.7</b>	<b>109,487.2</b>	<b>234,588.2</b>	<b>184,050.9</b>	<b>125,315.1</b>	<b>221,575.1</b>
<b>Financed by:</b>						
Developer Contributions	645.0	3,264.9	14,029.4	4,104.6	185.0	0.0
Capital Grants	22,293.0	19,355.8	34,276.8	11,991.6	7,858.0	1,291.0
Capital Receipts	11,619.1	20,966.0	27,092.7	25,812.5	43,085.9	11,257.9
Revenue	28,797.6	3,249.4	2,923.2	9,561.2	5,708.3	12,641.0
Major Repairs Reserve	8,200.7	9,499.2	10,392.6	10,414.2	9,829.0	18,830.2
Sub Total	71,555.4	56,335.3	88,714.7	61,884.1	66,666.2	44,020.1
<b>Prudential Borrowing</b>	<b>6,463.3</b>	<b>53,151.9</b>	<b>145,873.5</b>	<b>122,166.8</b>	<b>58,648.9</b>	<b>177,555.0</b>
<b>Total funding</b>	<b>78,018.7</b>	<b>109,487.2</b>	<b>234,588.2</b>	<b>184,050.9</b>	<b>125,315.1</b>	<b>221,575.1</b>

**Table 2:- Capital Expenditure and Financing – General Fund**

General Fund	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Commercial investments	0.0	0.0	0.0	0.0	0.0	0.0
Service Investments	8,804.4	18,829.9	46,554.8	14,569.7	34,147.1	12,256.9
Other General Fund	25,060.7	35,786.5	70,465.9	40,440.5	47,109.0	12,669.0
<b>Total expenditure</b>	<b>33,865.1</b>	<b>54,616.4</b>	<b>117,020.7</b>	<b>55,010.2</b>	<b>81,256.1</b>	<b>24,925.9</b>
<b>Financed by:</b>						
Developer Contributions	645.0	3,264.9	14,029.4	4,104.6	185.0	0.0
Capital Grants	18,643.0	10,383.8	22,233.8	5,118.6	1,200.0	1,200.0
Capital Receipts	8,970.3	16,732.0	15,095.8	14,281.0	18,446.0	10,471.9
Revenue	0.0	1,422.8	2,923.2	1,581.2	2,776.2	455.0
Sub Total	28,258.3	31,803.5	54,282.2	25,085.4	22,607.2	12,126.9
<b>Prudential Borrowing</b>	<b>5,606.8</b>	<b>22,812.9</b>	<b>62,738.5</b>	<b>29,924.8</b>	<b>58,648.9</b>	<b>12,799.0</b>
<b>Total funding</b>	<b>33,865.1</b>	<b>54,616.4</b>	<b>117,020.7</b>	<b>55,010.2</b>	<b>81,256.1</b>	<b>24,925.9</b>

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**Table 3:- Capital Expenditure and Financing – Housing Revenue Account**

Housing Revenue Account	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
HRA	44,153.6	54,870.8	117,567.5	129,040.7	44,059.0	196,649.2
<b>Total expenditure</b>	<b>44,153.6</b>	<b>54,870.8</b>	<b>117,567.5</b>	<b>129,040.7</b>	<b>44,059.0</b>	<b>196,649.2</b>
<b>Financed by:</b>						
Capital Grants	3,650.0	8,972.0	12,043.0	6,873.0	6,658.0	91.0
Capital Receipts	2,648.8	4,234.0	11,996.8	11,531.5	24,639.9	786.0
Revenue	28,797.6	1,826.6	0.0	7,980.0	2,932.1	12,186.0
Major Repairs Reserve	8,200.7	9,499.2	10,392.6	10,414.2	9,829.0	18,830.2
Sub Total	43,297.1	24,531.8	34,432.4	36,798.7	44,059.0	31,893.2
<b>Prudential Borrowing</b>	<b>856.5</b>	<b>30,339.0</b>	<b>83,135.0</b>	<b>92,242.0</b>	<b>0.0</b>	<b>164,756.0</b>
<b>Total funding</b>	<b>44,153.6</b>	<b>54,870.8</b>	<b>117,567.4</b>	<b>129,040.7</b>	<b>44,059.0</b>	<b>196,649.2</b>

7. The following tables show how much of the overall capital funding need relates to “commercial investments” such as expenditure on purchasing investment properties and how much relates to “service investment” such as loans to companies to fulfil service needs.

**Table 4:- Commercial and Service Investments funding need**

<b>Commercial investments</b>	<b>2021/22 Actuals</b>	<b>2022/23 Forecast</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
<b>Capital Expenditure (£000's)</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Percentage of total financing need</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Service investments</b>	<b>2021/22 Actuals</b>	<b>2022/23 Forecast</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
<b>Capital Expenditure (£000's)</b>	8,804.4	18,829.9	46,554.8	14,569.7	34,147.1	12,256.9
<b>Percentage of total financing need</b>	11.3%	17.2%	19.8%	7.9%	27.2%	5.5%

**B. Affordability**

8. This indicator represents the estimate of the ratio of interest income to the net revenue stream for the General Fund split by General Investments, Commercial Investments and Service Investments. The indicator is interpreted such that the larger the percentage figure becomes, the more reliant the General Fund is on the interest income.

**Table 5:- General Fund ratio of interest income to the net revenue stream**

General Fund General Investments	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
General Investments	-315.62	-1,556.08	-876.38	-760.26	-711.58	-703.91
Revenue stream	-27,443.00	-22,382.43	-24,792.97	-24,093.98	-22,618.15	-23,157.06
Ratio	1.2%	7.0%	3.5%	3.2%	3.1%	3.0%
General Fund Commercial investments	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Commercial investments	-722.48	-732.00	-732.00	-732.00	-732.00	-732.00
Revenue stream	-27,443.00	-22,382.43	-24,792.97	-24,093.98	-22,618.15	-23,157.06
Ratio	2.6%	3.3%	3.0%	3.0%	3.2%	3.2%
General Fund Service investments	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Service investments	-2,863.61	-2,810.91	-4,187.06	-5,506.16	-6,723.62	-8,232.58
Revenue stream	-27,443.00	-22,382.43	-24,792.97	-24,093.98	-22,618.15	-23,157.06
Ratio	10.4%	12.6%	16.9%	22.9%	29.7%	35.6%

9. This indicator represents the estimate of the ratio of HRA net interest expenditure to the net revenue stream 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. Note that this includes both investment income and borrowing costs.

**Table 6:- HRA Ratio of Financing Costs to Net Revenue Stream**

Housing Revenue Account	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Item 8 Borrowing interest	7,638.09	8,328.02	10,745.38	14,142.32	15,814.20	18,501.39
Item 8 Investment income	-119.73	-496.00	-578.66	-496.00	-454.66	-440.89
<b>Net financing cost</b>	<b>7,518.36</b>	<b>7,832.02</b>	<b>10,166.72</b>	<b>13,646.32</b>	<b>15,359.54</b>	<b>18,060.50</b>
<b>Revenue stream</b>	-45,913.00	-47,794.49	-51,572.38	-56,746.89	-59,185.83	-63,097.94
<b>Ratio</b>	<b>-16.4%</b>	<b>-16.4%</b>	<b>-19.7%</b>	<b>-24.0%</b>	<b>-26.0%</b>	<b>-28.6%</b>

10. It should be noted that the net cost of borrowing within the HRA increases over the MTFP period from 16.4% of the HRA revenue stream at the end of 2021/22 to an estimated 28.8% at the end of 2026/27. A 40 year HRA business plan is maintained for the HRA which shows that this level of borrowing is affordable. This is closely monitored on an ongoing basis to ensure that the level of HRA debt does not become unaffordable.

11. In addition to the HRA long term business plan being used to ensure long term viability of the HRA, the Council is introducing an interest cover ratio into HRA planning. The business plan and the associated capital plans have been built in order that the target interest cover ratio of 1.25 can be met by 2024/25 and will then be met on an ongoing basis.

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

12. 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.
13. 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.
14. The table also shows the amount of the CFR which is needed to finance the "commercial investments" and "service investments".

**Table 7:- Estimates of capital financing requirement (underlying need to borrow for a capital purpose)**

	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Commercial investments	0	0	0	0	0	0
Service Investments	46,236	55,002	85,363	91,023	91,953	100,882
Other General Fund	24,347	33,704	54,632	71,500	97,375	98,250
<b>General Fund</b>	70,583	88,706	139,995	162,523	189,328	199,132
<b>HRA</b>	224,725	256,555	339,690	431,932	431,932	596,688
<b>Total CFR</b>	<b>295,308</b>	<b>345,261</b>	<b>479,685</b>	<b>594,455</b>	<b>621,260</b>	<b>795,820</b>
<b>Movement in CFR</b>	<b>5,811</b>	<b>49,953</b>	<b>134,424</b>	<b>114,770</b>	<b>26,805</b>	<b>174,560</b>
Movement in the CFR represented by:						
Net Financing need for the year	5,607	53,152	145,874	122,167	58,649	177,555
Other Adjustments	856	0	0	0	0	0
Repayment of debt	-615	-3,161	-11,285	-6,436	-30,568	-569
Less MRP	-37	-38	-165	-961	-1,276	-2,426
<b>Movement in CFR</b>	<b>5,811</b>	<b>49,953</b>	<b>134,424</b>	<b>114,770</b>	<b>26,805</b>	<b>174,560</b>

## D. Core Funds and Expected Investment Balances

15. 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 8:- Core Funds and Expected Investment Balances**

Estimated Year End Resources	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Fund Balances & Reserves	74,275	74,275	74,275	74,275	74,275	74,275
Capital Receipts & Grants	57,106	40,106	40,106	40,106	40,106	40,106
Provisions	7,536	7,536	7,536	7,536	7,536	7,536
Other	-13,841	-13,841	-13,841	-13,841	-13,841	-13,841
<b>Total Core Funds</b>	125,076	108,076	108,076	108,076	108,076	108,076
Working Capital *	46,977	46,977	46,977	46,977	46,977	46,977
(Under) / Over Borrowing **	-60,780	-114,903	-115,327	-114,097	-113,902	-112,706
<b>Expected Investments ***</b>	111,273	40,150	39,726	40,956	41,151	42,347

\* 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

16. The Council's forward projections for borrowing are summarised below. This analysis shows the capital financing requirement rather than the underlying need to borrow which includes the credit side of the costs of assets leased by the Council. This credit may need to be included in future if the changes in accounting under IFRS 16 increases the leases figure significantly. The table shows the anticipated external debt against the underlying capital borrowing need, the CFR.

**Table 9:- External Debt against Underlying Borrowing Requirement**

	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Debt at 1st April	234,528	234,528	230,358	364,358	480,358	507,358
Expected Change in Debt	0	-4,170	134,000	116,000	27,000	175,756
<b>Expected Debt at 31 March</b>	234,528	230,358	364,358	480,358	507,358	683,114
CFR	295,308	345,261	479,685	594,455	621,260	795,820
<b>Under / (Over) Borrowing</b>	60,780	114,903	115,327	114,097	113,902	112,706

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**Table 10:- Limits to borrowing activity**

	2021/22 Actuals £000's	2022/23 Forecast £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's
Authorised limit	363,894	532,111	815,820	815,820	815,820	815,820
Operational boundary	302,865	365,261	499,685	614,455	641,260	815,820

18. 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. The purpose of this and the following two 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. This is split between the General Fund and HRA for the maturity structure.

**Table 11:- Maturity Structure of Borrowing – General Fund**

<b>General Fund</b>	<b>Estimate Upper %</b>	<b>Estimate Lower %</b>
< 12 months	100%	0
12 months up to 2 years	100%	0
2 up to 5 years	100%	0
5 up to 10 years	100%	0
10 up to 20 years	100%	0
20 up to 30 years	100%	0
30 up to 40 years	100%	0
40 years +	100%	0

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**Table 12:- Maturity Structure of Borrowing – HRA**

<b>HRA</b>	<b>Estimate Upper %</b>	<b>Estimate Lower %</b>
< 12 months	20%	0
12 months up to 2 years	40%	0
2 up to 5 years	40%	0
5 up to 10 years	40%	0
10 up to 20 years	80%	0
20 up to 30 years	80%	0
30 up to 40 years	80%	0
40 years +	80%	0

**Table 13:- Upper limit on fixed and variable interest rate borrowing and investments**

	<b>2021/22 Actuals %</b>	<b>2022/23 Forecast %</b>	<b>2023/24 Estimate %</b>	<b>2024/25 Estimate %</b>	<b>2025/26 Estimate %</b>	<b>2026/27 Estimate %</b>
Upper limit on fixed rate borrowing	100	100	100	100	100	100
Upper limit on fixed rate investments	100	100	100	100	100	100
Upper limit on variable rate borrowing	100	100	100	100	100	100
Upper limit on variable rate investments	100	100	100	100	100	100

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

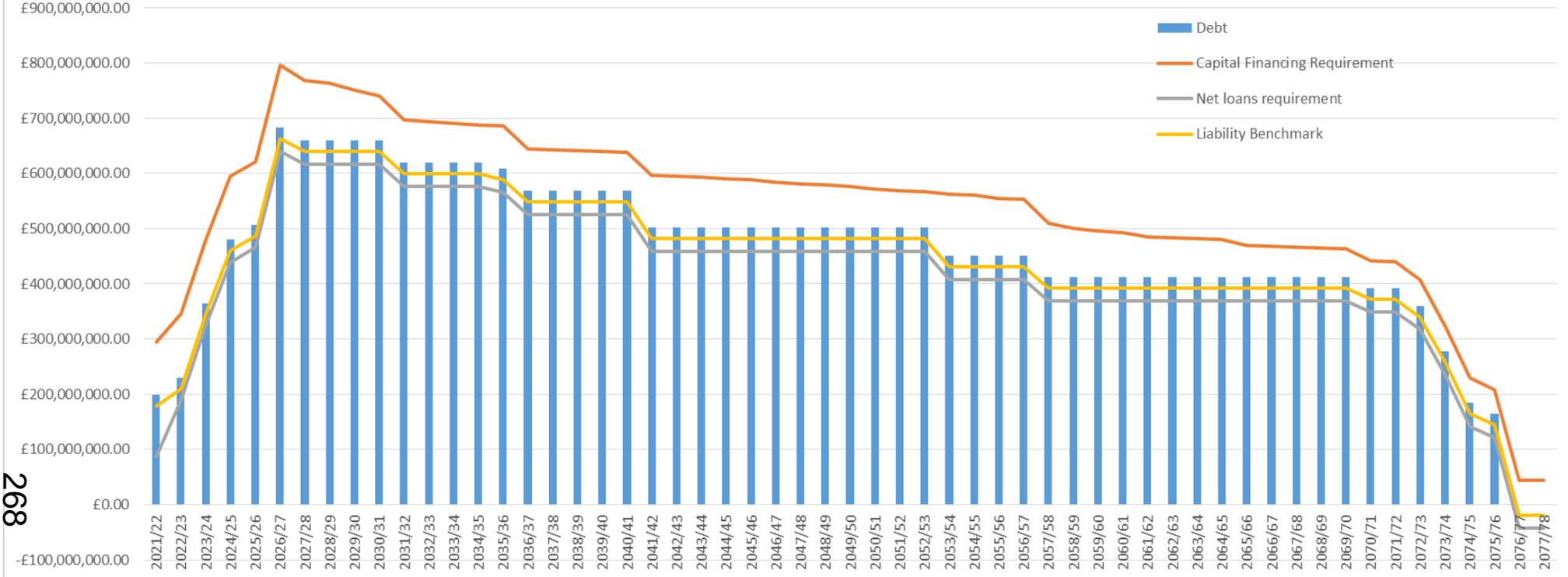
**Table 14:- Upper limit for principal sums invested for periods longer than 365 days**

	<b>2021/22 Actuals</b>	<b>2022/23 Forecast</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
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%

## Liability Benchmark

20. The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how the Minimum Revenue Provision, long term projections of the Capital Financing Requirement and other cash flows affect the future debt requirement. The analysis also includes an assessment of the potential maturity profile of borrowing being planned in the Medium Term Financial Strategy.
21. These graphs assume that the HRA will make a Voluntary Revenue Provision to lower the CFR in line with the redemption of debt.
22. The presentation of the Liability Benchmark is in the form of a chart covering the following four areas:
  - Existing loan debt – current borrowing portfolio (split by loan type as a stacked bar chart if appropriate; the Council has borrowed and is intending to borrow from the Public Works Loans Board and so this aspect is unnecessary at this stage);
  - Loans CFR – this excludes any part of the CFR relating to other long-term liabilities;
  - Net loans requirement – loan debt less treasury management investments at the financial year end and projected into the future based on approved prudential borrowing, planned MRP and any other major cash flow forecast;
  - Liability Benchmark – net loans requirement plus short-term liquidity allowance.

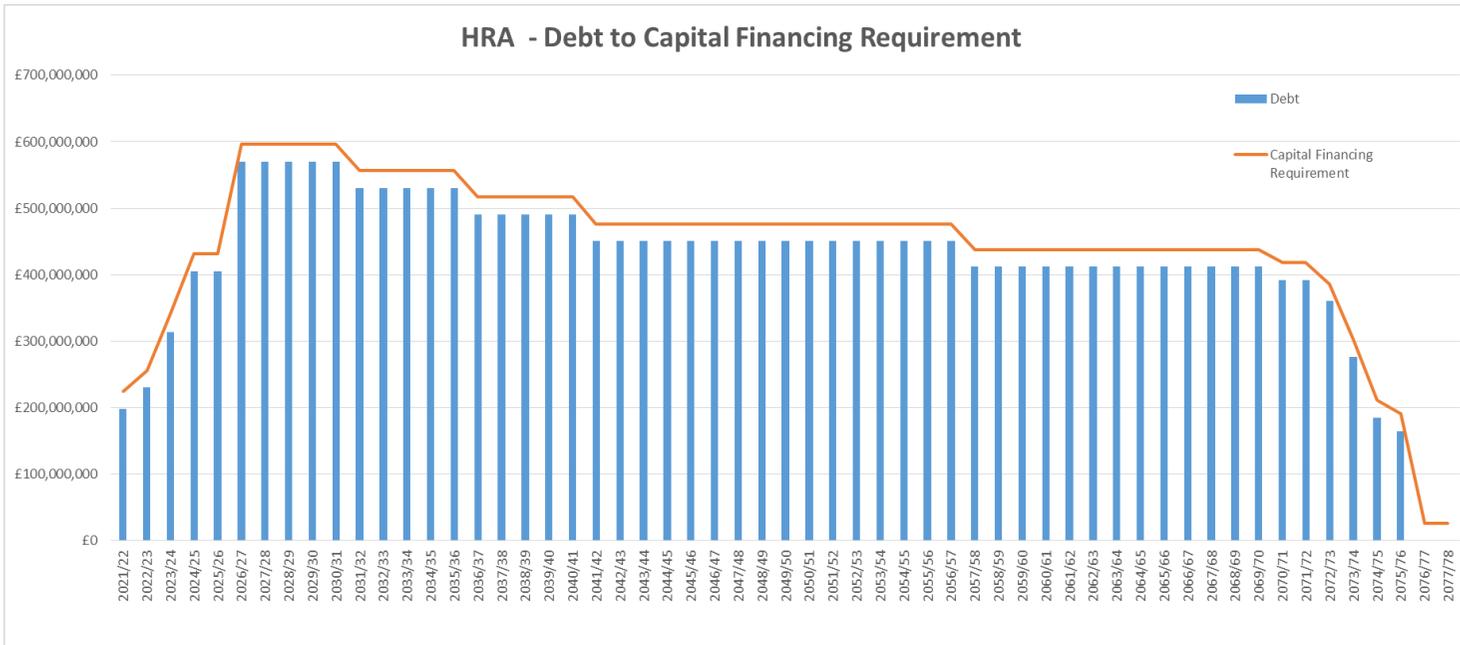
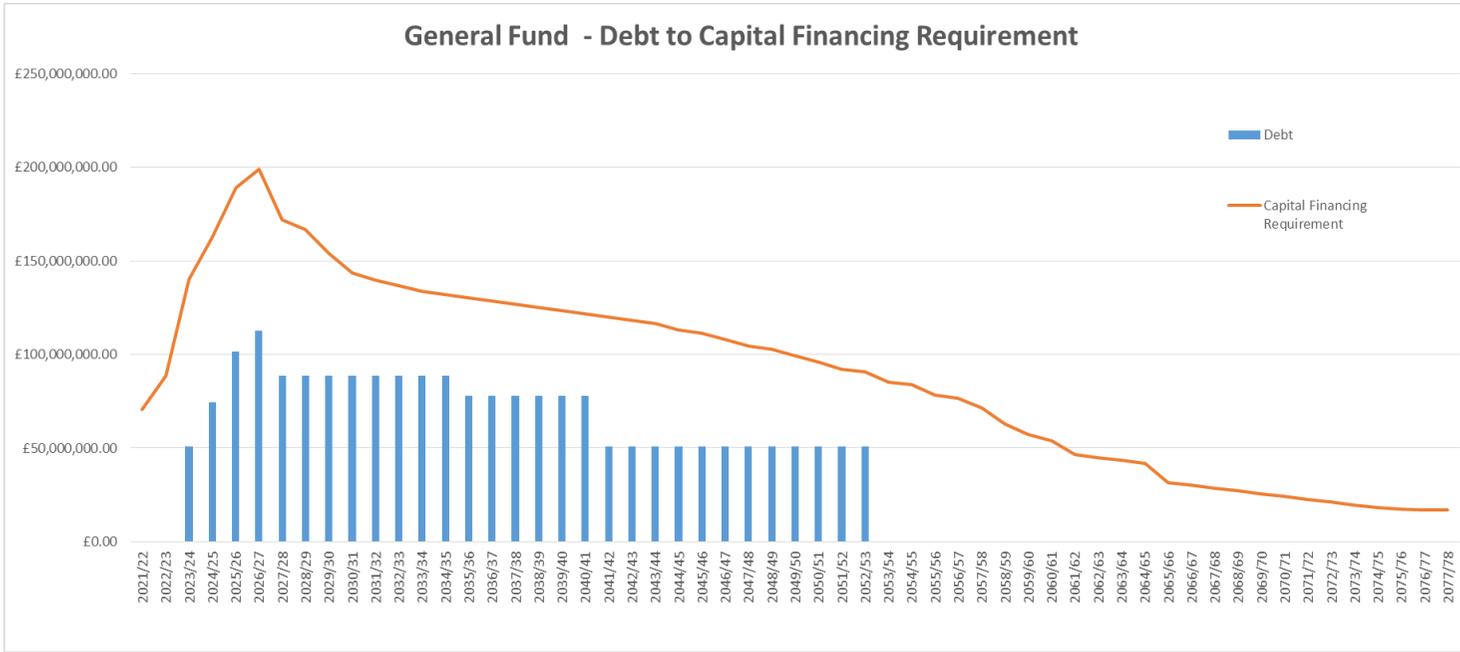
# Liability Benchmark



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23. The following graphs show the levels of debt compared to the Capital Financing Requirement split between the General Fund and the HRA.

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