

## Prudential Indicators

### NOTE

Prudential Indicator figures for 2023/24 are based on figures which are still being audited.

### 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 2025/26 to 2029/30 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>2023/24 Actual £000's</b>	<b>2024/25 Forecast £000's</b>	<b>2025/26 Estimate £000's</b>	<b>2026/27 Estimate £000's</b>	<b>2027/28 Estimate £000's</b>	<b>2028/29 Estimate £000's</b>	<b>2029/30 Estimate £000's</b>
<b>Commercial investments</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Service Investments</b>	3,298.6	13,075.7	0.0	4,480.1	14,134.1	57,805.6	13,799.9
<b>Other General Fund</b>	17,240.0	65,346.5	37,387.9	40,957.7	21,254.4	7,301.0	6,819.9
<b>HRA</b>	38,234.9	164,172.9	141,126.3	100,664.7	101,467.3	92,935.8	201,337.6
<b>Total expenditure</b>	<b>58,773.5</b>	<b>242,595.1</b>	<b>178,514.2</b>	<b>146,102.5</b>	<b>136,855.8</b>	<b>158,042.4</b>	<b>221,957.4</b>
<b>Financed by:</b>							
Developer Contributions	1,653.5	11,589.1	4,924.7	620.9	150.0	0.0	0.0
Capital Grants	9,392.1	19,433.5	3,164.0	11,739.5	6,712.3	6,344.5	7,738.7
Capital Receipts	13,085.9	20,025.7	7,725.4	4,809.9	15,768.4	12,781.7	8,519.5
Revenue	1,581.4	12,367.0	4,901.0	5,857.0	7,936.0	8,275.0	1,000.0
Major Repairs Reserve	15,438.9	9,901.9	9,716.9	10,115.4	10,245.1	10,940.0	11,682.0
Sub Total	41,151.8	73,317.2	30,432.0	33,142.7	40,811.8	38,341.2	28,940.2
<b>Prudential Borrowing</b>	<b>17,621.7</b>	<b>169,277.9</b>	<b>148,082.2</b>	<b>112,959.8</b>	<b>96,044.0</b>	<b>119,701.2</b>	<b>193,017.2</b>
<b>Total funding</b>	<b>58,773.5</b>	<b>242,595.1</b>	<b>178,514.2</b>	<b>146,102.5</b>	<b>136,855.8</b>	<b>158,042.4</b>	<b>221,957.4</b>

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

General Fund	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Commercial investments	0.0	0.0	0.0	0.0	0.0	0.0	
Service Investments	3,298.6	13,075.7	0.0	4,480.1	14,134.1	57,805.6	13,799.9
Other General Fund	17,240.0	65,346.5	37,387.9	40,957.7	21,254.4	7,301.0	6,819.9
<b>Total expenditure</b>	<b>20,538.6</b>	<b>78,422.2</b>	<b>37,387.9</b>	<b>45,437.8</b>	<b>35,388.5</b>	<b>65,106.6</b>	<b>20,619.8</b>
<b>Financed by:</b>							
Developer Contributions	1,653.5	11,589.1	4,924.7	620.9	150.0	0.0	0.0
Capital Grants	4,006.4	17,213.5	1,472.0	1,200.0	1,200.0	1,200.0	1,200.0
Capital Receipts	8,977.8	15,456.9	4,514.7	2,685.1	2,051.0	1,751.0	1,711.0
Revenue	279.2	0.0	0.0	0.0	0.0	0.0	0.0
Sub Total	14,916.9	44,259.5	10,911.4	4,506.0	3,401.0	2,951.0	2,911.0
<b>Prudential Borrowing</b>	<b>5,621.7</b>	<b>34,162.7</b>	<b>26,476.5</b>	<b>40,931.8</b>	<b>31,987.5</b>	<b>62,155.6</b>	<b>17,708.8</b>
<b>Total funding</b>	<b>20,538.6</b>	<b>78,422.2</b>	<b>37,387.9</b>	<b>45,437.8</b>	<b>35,388.5</b>	<b>65,106.6</b>	<b>20,619.8</b>

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

Housing Revenue Account	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
HRA	38,234.9	164,172.9	141,126.3	100,664.7	101,467.3	92,935.8	201,337.6
<b>Total expenditure</b>	<b>38,234.9</b>	<b>164,172.9</b>	<b>141,126.3</b>	<b>100,664.7</b>	<b>101,467.3</b>	<b>92,935.8</b>	<b>201,337.6</b>
<b>Financed by:</b>							
Capital Grants	5,385.7	2,220.0	1,692.0	10,539.5	5,512.3	5,144.5	6,538.7
Capital Receipts	4,108.1	4,568.8	3,210.7	2,124.8	13,717.4	11,030.7	6,808.5
Revenue	1,302.2	12,367.0	4,901.0	5,857.0	7,936.0	8,275.0	1,000.0
Major Repairs Reserve	15,438.9	9,901.9	9,716.9	10,115.4	10,245.1	10,940.0	11,682.0
Sub Total	26,234.9	29,057.7	19,520.6	28,636.7	37,410.8	35,390.2	26,029.2
<b>Prudential Borrowing</b>	<b>12,000.0</b>	<b>135,115.2</b>	<b>121,605.7</b>	<b>72,028.0</b>	<b>64,056.5</b>	<b>57,545.6</b>	<b>175,308.4</b>
<b>Total funding</b>	<b>38,234.9</b>	<b>164,172.9</b>	<b>141,126.3</b>	<b>100,664.7</b>	<b>101,467.3</b>	<b>92,935.8</b>	<b>201,337.6</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>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>	<b>2029/30 Estimate</b>
<b>Capital Expenditure (£000's)</b>	0.0	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%	0.0%
<b>Service investments</b>	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>	<b>2029/30 Estimate</b>
<b>Capital Expenditure (£000's)</b>	3,298.6	13,075.7	0.0	4,480.1	14,134.1	57,805.6	13,799.9
<b>Percentage of total financing need</b>	5.6%	5.4%	0.0%	3.1%	10.3%	36.6%	6.2%

## 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	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
General Investments	-1,161.19	-539.94	-414.16	-349.05	-350.95	-332.78	-324.98
Revenue stream	-30,630.00	-28,957.21	-30,933.77	-30,888.66	-31,437.37	-31,696.35	-32,465.96
Ratio	3.8%	1.9%	1.3%	1.1%	1.1%	1.0%	1.0%
General Fund Commercial investments	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Commercial investments	-909.25	-732.00	-732.00	-732.00	-732.00	-732.00	-732.00
Revenue stream	-30,630.00	-28,957.21	-30,933.77	-30,888.66	-31,437.37	-31,696.35	-32,465.96
Ratio	3.0%	2.5%	2.4%	2.4%	2.3%	2.3%	2.3%
General Fund Service investments	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Service investments	-3,265.13	-2,566.54	-2,035.82	-1,900.41	-2,819.02	-4,497.54	-5,300.58
Revenue stream	-30,630.00	-28,957.21	-30,933.77	-30,888.66	-31,437.37	-31,696.35	-32,465.96
Ratio	10.7%	8.9%	6.6%	6.2%	9.0%	14.2%	16.3%

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**

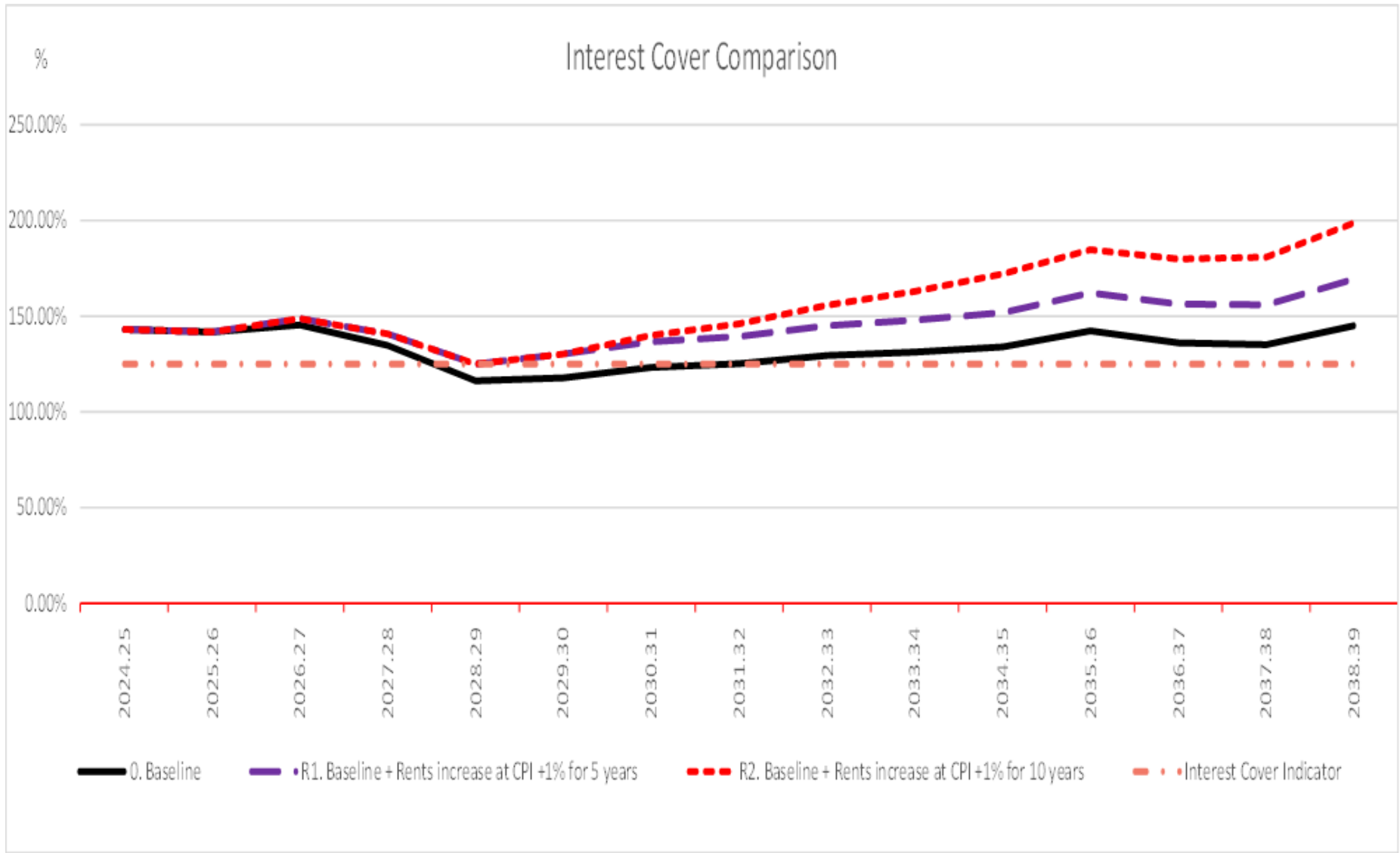
Housing Revenue Account	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Item 8 Borrowing interest	9,566.74	8,801.20	17,724.31	21,971.62	24,918.37	27,441.62	32,263.40
Item 8 Investment income	-990.95	-991.99	-581.75	-537.00	-537.00	-537.00	-537.00
<b>Net financing cost</b>	<b>8,575.79</b>	<b>7,809.21</b>	<b>17,142.56</b>	<b>21,434.62</b>	<b>24,381.37</b>	<b>26,904.62</b>	<b>31,726.40</b>
<b>Revenue stream</b>	-52,569.00	-57,718.00	-60,897.00	-64,671.00	-68,943.00	-71,975.00	-74,713.00
<b>Ratio</b>	<b>-16.3%</b>	<b>-13.5%</b>	<b>-28.2%</b>	<b>-33.1%</b>	<b>-35.4%</b>	<b>-37.4%</b>	<b>-42.5%</b>

10. It should be noted that the net cost of borrowing within the HRA increases over the MTFP period from 16.3% of the HRA revenue stream at the end of 2023/24 to an estimated 42.5% at the end of 2029/30. 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 has introduced 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 on an ongoing basis. A graph showing the projected interest cover ration over time is shown below:

# Interest Cover Comparison

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### 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 because 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)**

	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Commercial investments	0	0	0	0	0	0	0
Service Investments	40,919	22,869	19,441	21,389	35,449	74,564	81,030
Other General Fund	30,923	51,333	75,690	109,396	123,971	123,830	123,040
<b>General Fund</b>	71,842	74,202	95,131	130,785	159,420	198,394	204,070
<b>HRA</b>	270,910	406,026	527,632	599,659	663,716	721,262	896,570
<b>Total CFR</b>	<b>342,752</b>	<b>480,228</b>	<b>622,763</b>	<b>730,444</b>	<b>823,136</b>	<b>919,656</b>	<b>1,100,640</b>
<b>Movement in CFR</b>	<b>5,799</b>	<b>137,476</b>	<b>142,535</b>	<b>107,681</b>	<b>92,692</b>	<b>96,520</b>	<b>180,984</b>
Movement in the CFR represented by:							
Net Financing need for the year	17,622	169,278	148,082	112,960	96,044	119,701	193,017
Other Adjustments	0	0	0	0	0	0	0
Repayment of debt	-11,641	-31,648	-5,054	-4,533	-2,375	-21,230	-10,066
Less MRP	-182	-154	-493	-746	-977	-1,951	-1,967
<b>Movement in CFR</b>	<b>5,799</b>	<b>137,476</b>	<b>142,535</b>	<b>107,681</b>	<b>92,692</b>	<b>96,520</b>	<b>180,984</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	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Fund Balances & Reserves	77,247	57,247	55,747	54,247	54,247	54,247	54,247
Capital Receipts & Grants	67,717	67,717	67,717	67,717	67,717	67,717	67,717
Provisions	5,850	5,850	5,850	5,850	5,850	5,850	5,850
Other	-13,092	-13,092	-13,092	-13,092	-13,092	-13,092	-13,092
<b>Total Core Funds</b>	137,722	117,722	116,222	114,722	114,722	114,722	114,722
Working Capital *	-5,015	-5,015	-5,015	-5,015	-5,015	-5,015	-5,015
(Under) / Over Borrowing **	-113,933	-89,408	-90,943	-88,625	-89,317	-89,836	-89,820
<b>Expected Investments ***</b>	18,774	23,299	20,264	21,082	20,390	19,871	19,887

\* 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**

	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Debt at 1st April	198,528	218,528	355,528	531,528	641,528	733,528	819,528
Expected Change in Debt	20,000	137,000	176,000	110,000	92,000	86,000	156,000
<b>Expected Debt at 31 March</b>	218,528	355,528	531,528	641,528	733,528	819,528	975,528
CFR	342,752	480,228	622,763	730,444	823,136	919,656	1,100,640
<b>Under / (Over) Borrowing</b>	124,224	124,700	91,235	88,916	89,608	100,128	125,112

17. 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 10:- Limits to borrowing activity**

	2023/24 Actual £000's	2024/25 Forecast £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's	2029/30 Estimate £000's
Authorised limit	815,820	944,287	1,140,640	1,140,640	1,140,640	1,140,640	1,140,640
Operational boundary	499,685	574,304	642,763	750,444	843,136	939,656	1,120,640

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**

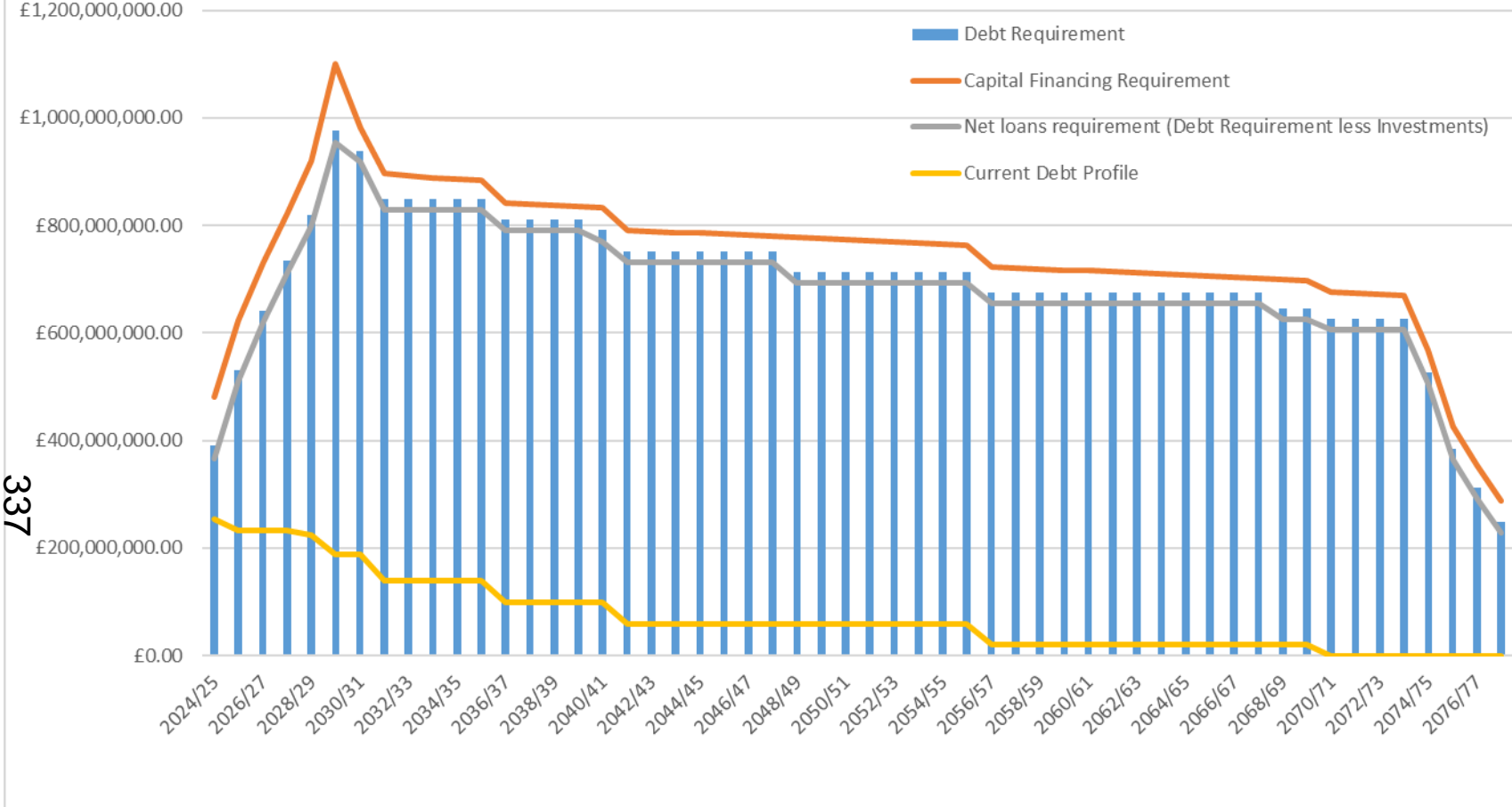
<b>HRA</b>	<b>Estimate Upper %</b>	<b>Estimate Lower %</b>
< 12 months	30%	0
12 months up to 2 years	40%	0
2 up to 5 years	40%	0
5 up to 10 years	40%	0
10 up to 20 years	90%	0
20 up to 30 years	90%	0
30 up to 40 years	90%	0
40 years +	90%	0



## Liability Benchmark

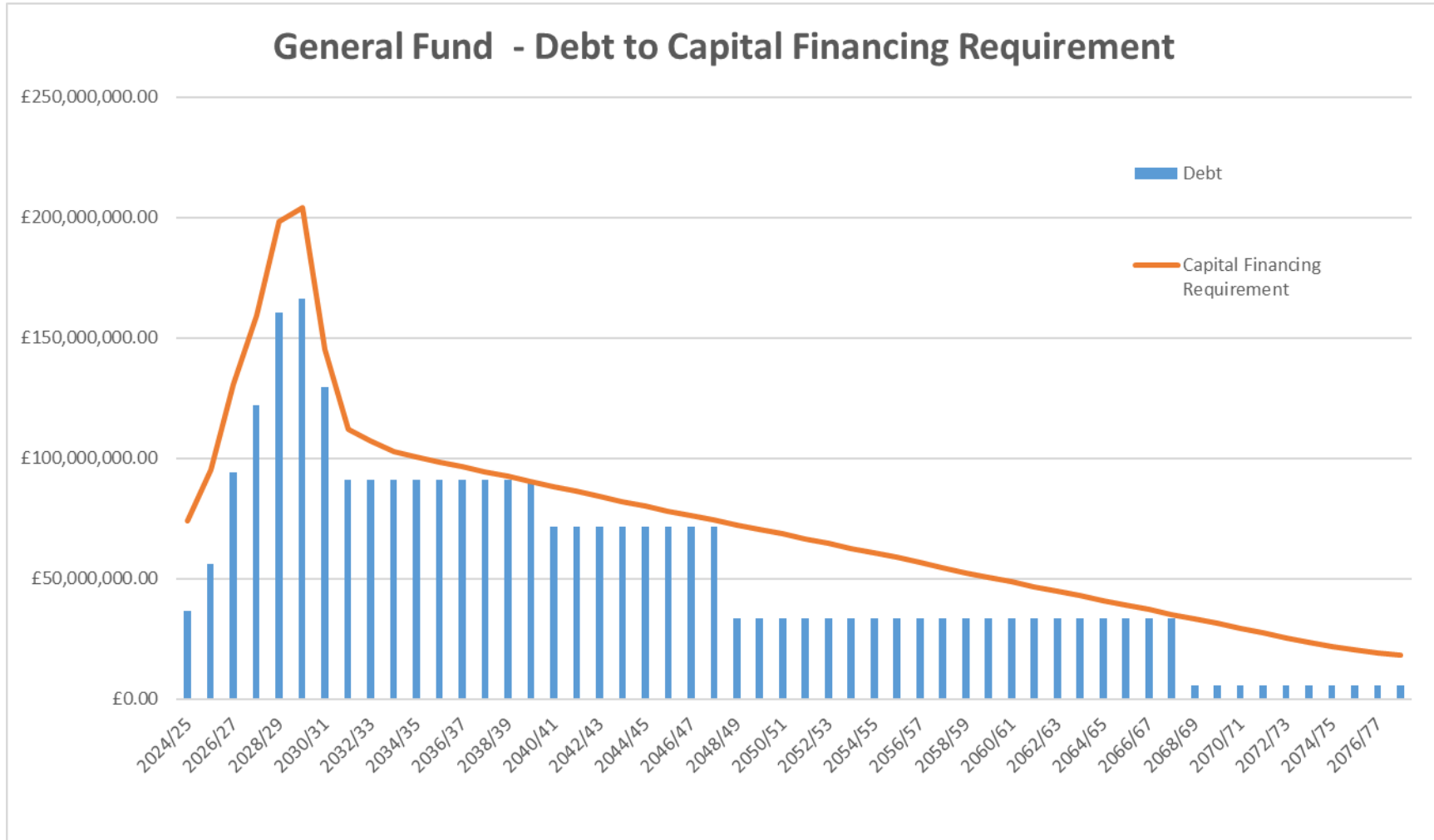
20. The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how the Minimum Revenue Provision, long term projections of the Capital Financing 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



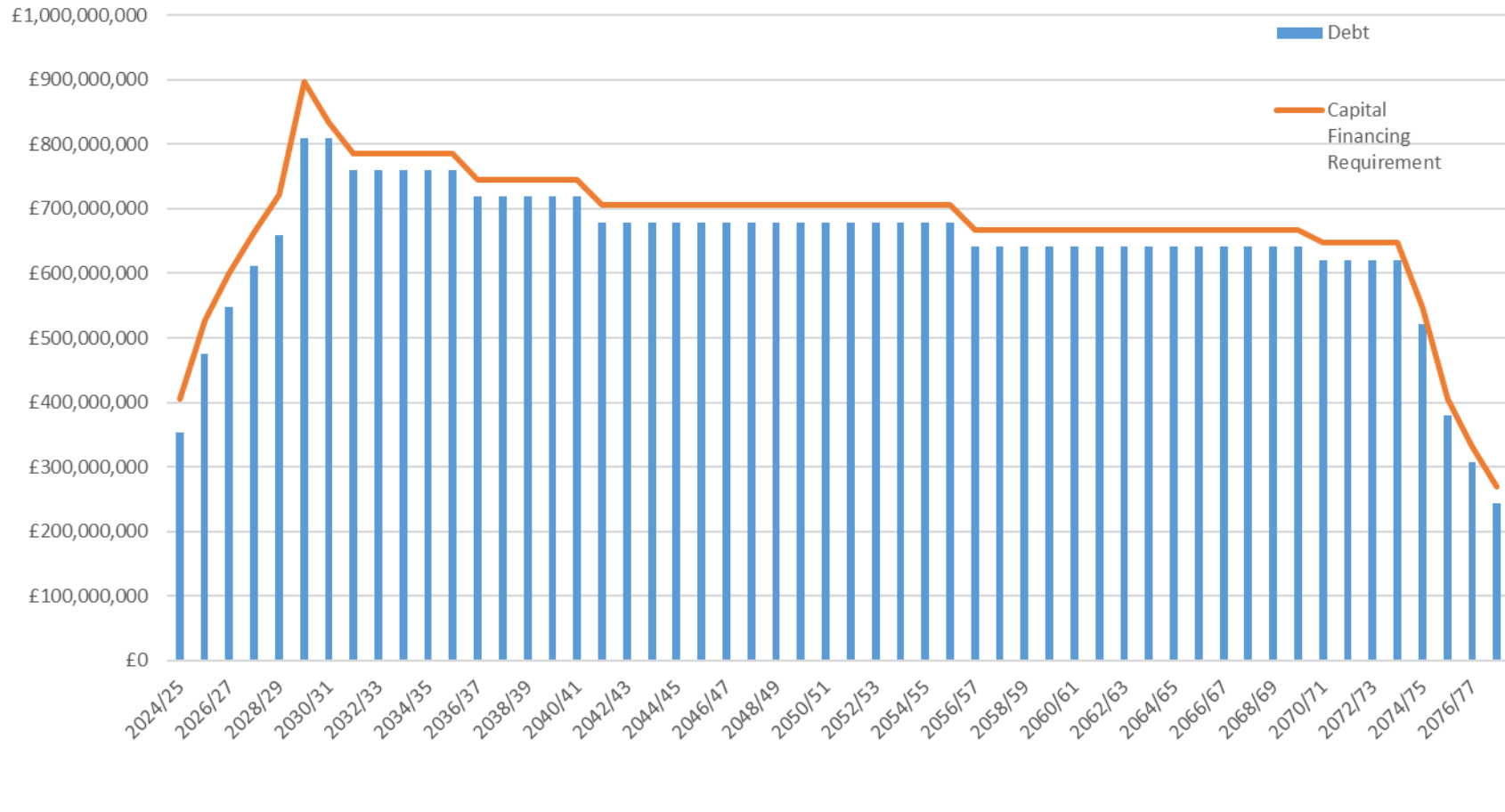
337

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





# HRA - Debt to Capital Financing Requirement



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