CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

1. Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Capital Expenditure					
Housing Revenue Account	5,696	9,187	26,102	17,865	17,966
General Fund	29,688	19,213	18,356	4,141	6,862
Non-Financial Investments	-	-	-	-	-
- Investment Properties	0	0	0	0	0
- Capital loans	0	11,838	0	0	0
	35,384	**40,238**	**44,458**	**22,006**	**24,828**
Financed by:					
Capital Receipts	2,279	20,654	10,185	2,226	5,315
Earmarked Reserves	331	9,872	11,957	3,213	5,039
Capital Grants & Contributions	1,203	4,105	7,889	2,019	965
Revenue	5,029	607	6,824	14,548	8,509
	8,842	**35,238**	**36,855**	**22,006**	**19,828**
Net Financing Need for the Year	**26,542**	**5,000**	**7,603**	**0**	**5,000**

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown below:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Non-financial investments					
Capital expenditure from above	0	11,838	0	0	0
Financing Costs met	0	11,838	0	0	0
Net Financing Need for the Year	**0**	**0**	**0**	**0**	**0**
Percentage of individual net financing need	**0%**	**0%**	**0%**	**0%**	**0%**
Percentage of total net financing need	**0%**	**0%**	**0%**	**0%**	**0%**

2. The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes.

The Council is asked to approve the CFR projections below:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
CFR at start of year					
- HRA	101,956	100,000	100,000	100,000	100,000
- General Fund	144,322	157,221	166,351	173,022	171,987
- Non-financial investments	432,661	442,178	433,724	430,044	426,217
	678,939	**699,399**	**700,075**	**703,066**	**698,204**
Net Financing Need for the Year	**26,542**	**5,000**	**7,603**	**0**	**5,000**
Less MRP/VRP	-4,126	-4,324	-4,612	-4,862	-5,122
Less Capital receipts to reduce debt	-1,956	0	0	0	0
CFR at end of year	**699,399**	**700,075**	**703,066**	**698,204**	**698,082**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, members consider the scale proportionate to the Authority's remaining activity.

3. Liability Benchmark

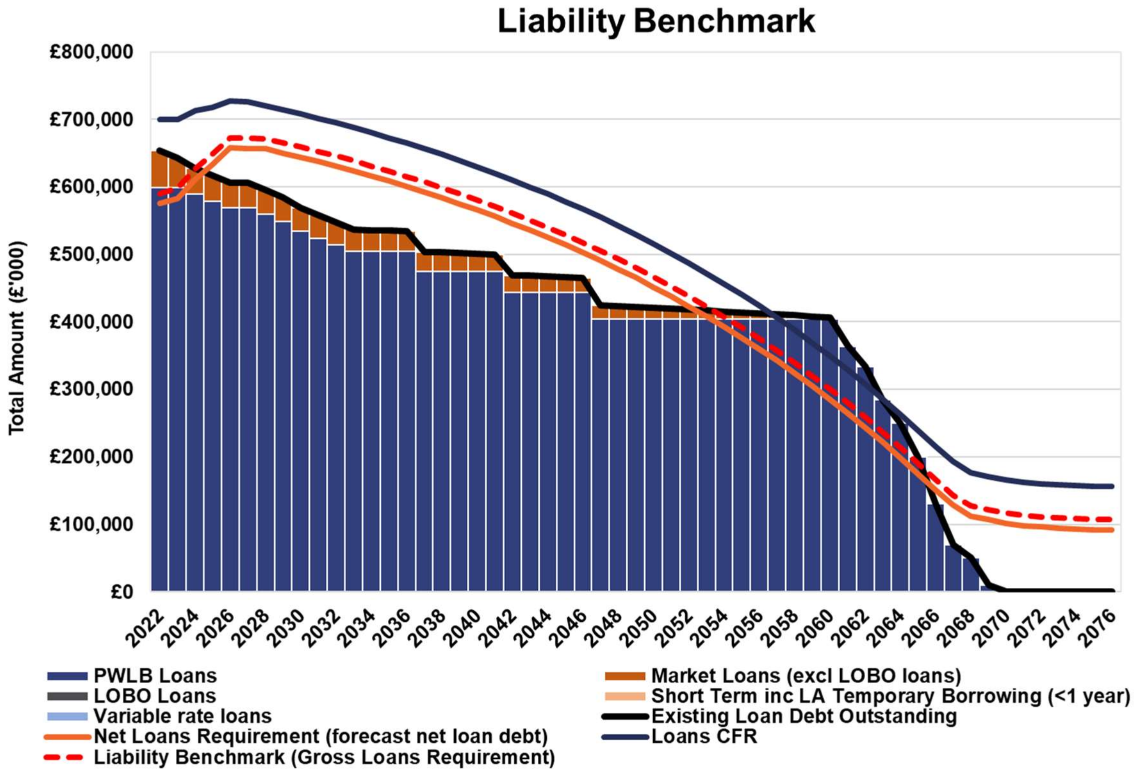
A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum and should ideally cover the full debt maturity profile of a local authority. The liability benchmark model only includes the approved capital expenditure (as per the CIPFA Treasury Management Code) and so does not reflect the financing of future capital ambitions

There are four components to the Liability Benchmark: -

- **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding.
- **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Treasury Management Code states that: *"The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where* *actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment."*

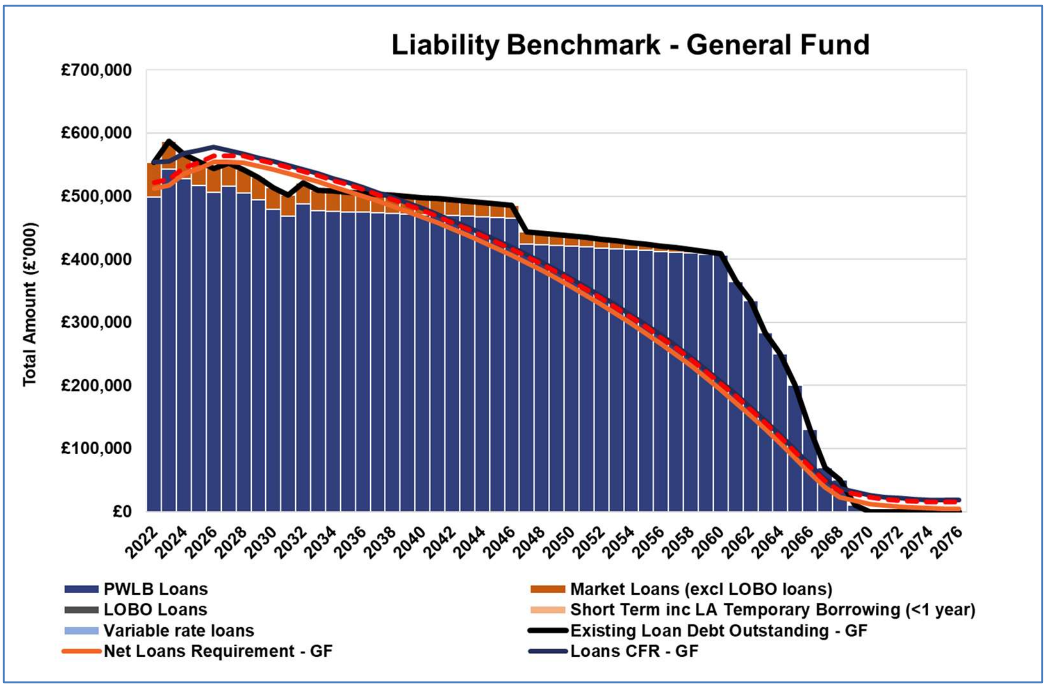
The liability benchmark starting position is based on a snapshot at the last Balance Sheet date. It is not unusual or necessarily an issue to be under / over the benchmark, the liability benchmark is intended to be used as a tool along with other factors used to feed into the authorities ongoing borrowing decisions.



The above chart shows the overall Council position taking both HRA and General Fund debt together. The overall position starts initially as being £64m over the liability benchmark and by 2025 shows a forecast borrowing requirement of £30m which then increases each year as the PWLB loans mature (the model assumes loans are repaid without replacement).

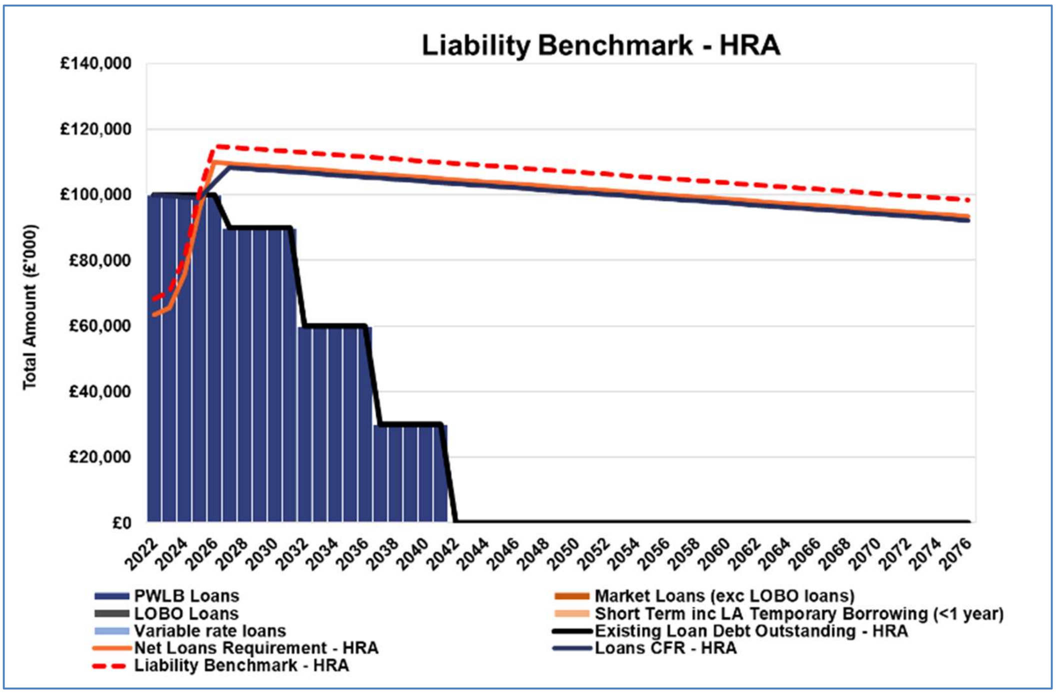
The overall position has a liquidity allowance of £15m, which sets the liability benchmark meaning the authority plans (as per liability benchmark model only) to utilise all but £15m of internal borrowing capacity (i.e. defer borrowing by utilising Balance Sheet cash resources such as reserves & working capital) to finance the CFR before taking on further PWLB or other external loan debt.

Breaking the Benchmark down into separate HRA and General Fund graphs produces the following results:



The GF forecast liability benchmark remains broadly in line with the forecast actual balance of external debt for the next 20 years. The liability benchmark by 2037 (year 15) shows outstanding borrowing that is over the forecast liability benchmark. By 2070 all debt has been repaid.

Where the actual loans outstanding exceed the benchmark, this represents an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). Officers will keep an eye on this and may look to repay some loans early if it is prudent to do so. Alternatively, it may be possible to switch the loans to HRA loans when the HRA loans are due for repayment if it is both prudent and affordable to both the GF & HRA.



The HRA is not required to make MRP and is relying on the minimal use of capital receipts to repay the HRA CFR. It can be seen from the graph that the HRA CFR remains broadly the same ranging between £99m - £110m. The HRA in this case has been financed with PWLB debt that is relatively short dated with regular maturities from 2027 (year 5) onwards. Although the HRA starts off over the Liability Benchmark indicator due to investment balances held, by 2026 (year 4) the model shows a forecast borrowing requirement (the gap between the actual loans and the net loans required) that increases each year as the PWLB loans mature so have exposure to potentially higher interest rates when refinancing the maturing debt.

4. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or 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 based on assumed cash movements in the MTFS and Capital Programme.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Reserves / Balances					
General Fund Balance	18,194	18,673	14,746	13,036	7,731
Housing Revenue Account	32,634	29,421	23,509	8,960	451
HRA Major Repairs Reserve	4,003	4,683	0	0	0
Earmarked reserves / other balances	33,267	27,568	26,108	26,045	24,695
Capital Receipts Reserve	7,600	1,372	4,332	5,557	2,442
Capital Grants Unapplied	9,249	3,800	0	0	0
Expected Investments at year end	**104,947**	**85,517**	**68,695**	**53,598**	**35,319**

5. Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

5.1. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	%	%	%	%	%
Ratio of Net Financing Costs to Net Revenue Stream	**54.45%**	**50.95%**	**42.85%**	**49.45%**	**58.88%**
General Fund	**119.14%**	**137.77%**	**117.98%**	**124.43%**	**173.59%**
Housing Revenue Account	**7.67%**	**3.24%**	**0.94%**	**4.69%**	**6.66%**

The General Fund percentage is high due to past borrowing to fund the former Property Investment Strategy and ongoing property developments. These costs are fully met by additional revenue income rather than Government grant and local taxpayers, however this income is not allowed to be included in this calculation. Including the income generated by the Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

5.2. Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The upper limit for principal sums invested for longer than 365 days is set at:

	2021/22 Actual £000s	2022/23 Probable £000s	2023/24 Estimate £000s	2025/25 Estimate £000s	2025/26 Estimate £000s
Principal sums invested for longer than 365 days	0	3,000	5,000	5,000	10,000

5.3. Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 90 day and 365 day backward looking SONIA (Sterling Overnight Index Average rate).

6. Borrowing

The capital expenditure plans set out in the Capital Programme and Capital & Investment Strategy approved by the Council in February each year provide details of the service activity of the Authority

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.

6.1. Current portfolio position

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	Actual 21/22 £000	Probable 22/23 £000	Estimate 23/24 £000	Estimate 24/25 £000	Estimate 25/26 £000
External Debt					
Debt at 1 April	627,629	654,084	648,075	650,613	650,613
Expected Chage in debt	26,455	- 6,009	2,538	-	5,000
Actual gross debts at 31 March	**654,084**	**648,075**	**650,613**	**650,613**	**655,613**
CFR	699,399	700,075	703,066	698,204	698,082
Under / (Over) Borrowing	**45,315**	**52,000**	**52,453**	**47,591**	**42,469**

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Non-Financial Investment Debt					
Overall Debt at 31 March	654,084	648,075	650,613	650,613	655,613
Oustanding Non-Financial Instrument Debt	442,178	433,724	430,044	426,217	422,237
Percentage	**68%**	**67%**	**66%**	**66%**	**64%**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following three financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Chief Executive reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

6.2. The operational boundary
This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Operational Boundary					
General Fund	-	548,075	550,613	550,613	550,613
HRA	-	100,000	100,000	100,000	105,000
Crystalising Internal Borrowing	-	-	10,000	20,000	30,000
Other (eg Temporary Borrowing; Leasing)	-	15,000	15,000	15,000	15,000
Operational Boundary	**653,731**	**663,075**	**675,613**	**685,613**	**700,613**

6.3. The authorised limit for external debt
A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 sustainable in the longer term.

- This 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.

- The Council is asked to approve the following authorised limit:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Authorised Limit					
General Fund	-	548,075	550,613	550,613	550,613
HRA	-	110,000	110,000	110,000	115,500
Crystalising Internal Borrowing	-	-	10,000	20,000	30,000
Other (eg Temporary Borrowing; Leasing)	-	30,000	30,000	30,000	30,000
Authorised Limit	**653,731**	**688,075**	**700,613**	**710,613**	**726,113**

This limit includes a “cushion” to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). The “Other” row also includes a figure for the potential for new leases being brought onto the balance sheet.

6.4. Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. 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 Council is asked to approve the following treasury indicators and limits:

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
Interest Rate Exposure UPPER Limits	£000	£000	£000	£000	£000
on **fixed** interest rates based on net debt	**585,488**	**632,109**	**656,857**	**677,092**	**705,749**
on **variable** interest rates based on net debt	**-**	**-**	**-**	**-**	**-**

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change daily therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

Maturity structure of interest rate borrowing 2023/24				
	FIXED interest		**VARIABLE interest**	
	Lower	**Upper**	**Lower**	**Upper**
Under 12 months	0%	25%	0%	0%

12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

The variable rate upper limit of zero means that the Council is minimising its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

7. Proportionality

Another new requirement from the Prudential and Treasury Management Codes is the concept of proportionality to ensure that the level of debt and aggregate risk are proportionate to the size of the authority.

The Council has therefore created a prudential indicator to measure the proportion of the income from commercial and/or service investments to the revenue stream (or in other words a % of non-financial investment income as a contribution to the revenue budget). This takes account of General Fund income only and includes all taxation, grants and other income that goes to pay for General Fund services.

	Actual 21/22	Probable 22/23	Estimate 23/24	Estimate 24/25	Estimate 25/26
	£000	£000	£000	£000	£000
Total Non-Financial Investments Income	26,370	28,454	28,884	29,136	29,404
Total Revenue	78,658	74,981	77,747	78,042	74,907
Non-financial investments as a percentage of total income	**34%**	**38%**	**37%**	**37%**	**39%**

This shows that nearly 40% of all the Council's General Fund income comes from Non - Financial Investment income. Ensuring that these types of investments are managed effectively and addressing the risks associated with them is key to the authority. For this reason the key risks and additional reporting and monitoring of data is set out in both the Investment Management Practices (IMP) in the Capital & Investment Strategy and the new Asset Management Strategy.

Reporting on this type of income will be developed in 2023/24 and reported either as part of the Quarterly Treasury Management Report or as part of the Quarterly Budget Monitoring reports.