

The Capital Prudential and Treasury Indicators 2021/22 – 2023/24

The Local Government Act 2003 requires a Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the Council's capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. It is also essential that, within the Council, there is an understanding of the risks involved and there is sufficient risk management undertaken for each investment undertaken.

The Prudential Code was revised in 2017 with the main changes being the inclusion of the Capital Strategy requirements and the removal of some indicators. To demonstrate the Council has met these objectives, the Prudential Code sets out a number of indicators that are monitored each year. These indicators are outlined in this report.

The Council's capital expenditure plans are the key driver of treasury management activity. 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. Capital expenditure is a summary of the Council's capital expenditure plans, both agreed previously and those forming part of this budget cycle. The capital expenditure forecasts are included in the first part of Table 1.

1. The Council's borrowing requirement (CFR)

- 1.1 The Council's Capital Financing Requirement (CFR) is the 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, which has not immediately been paid for, will increase the CFR.
- 1.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP), a statutory annual revenue charge, reduces the borrowing need in line with each asset's life. 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 scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. Table 1 sets out the CFR until 2023/24 and are cumulative.
- 1.3 The Investment and Acquisitions costs are self-financing, with rental income expected to pay for the borrowing costs and provide an income stream to the Council. MRP for IAS properties is charged after a two-year stabilisation period and then for 50 years based on an annuity repayment schedule for residential properties and 40 years for Temporary Accommodation. Members are asked to be aware that in-year movements to the IAS budgets will occur as development costs are confirmed and, in some cases, investment opportunities are identified. Budgets included in 2020/21 and onwards are best estimates and may change as financing and expenditure are confirmed. Members are asked to approve the capital expenditure forecasts and the CFR projections included in table 1.

Table 1: Capital Expenditure Forecast and Council's CFR 2020/21 – 2023/24

Capital Expenditure	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
General Fund				
Adults Care & Support	996	2,026	1,841	-
Community Solutions	187	-	-	-
CIL / S106	743	1,198	-	-
Core	1,339	-	-	-
Culture, Heritage & Recreation	1,426	7,088	466	150
Enforcement	937	1,766	1,000	-
Transport for London schemes	1,538	-	-	-
My Place	4,678	6,101	4,850	4,850
Public Realm	3,391	50	-	-
Education, Youth and Childcare	20,205	12,200	4,422	6,400
Other	1,999	416	340	340
Transformation	2,777	-	-	-
TOTAL EXPENDITURE	40,216	30,845	12,919	11,740
Financed by:				
Capital Grants	- 23,812	- 18,832	- 6,262	- 6,400
CIL/S106	- 2,162	- 2,420	- 155	-
Revenue Contributions	-	- 88	-	-
Capital Receipts	- 2,777	-	-	-
Total Net Borrowing Requirement	11,465	9,505	6,502	5,340
Housing Revenue Account (HRA)				
HRA	31,294	44,556	38,000	38,000
Financed by:				
HRA Contributions	- 31,294	- 44,556	- 38,000	- 38,000
Total Net Borrowing Requirement	-	-	-	-
Investment and Acquisition Strategy (net costs)				
Committed Funding Requirement	271,845	368,260	351,152	140,106
Potential Funding Requirements	6,455	194,663	151,548	180,296
Total Net Borrowing Requirement	278,300	562,923	502,700	320,402
Net financing need for the year	289,765	572,428	509,202	325,742
Capital Expenditure				
	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Capital Financing Requirement				
Opening CFR - General Fund	553,199	832,362	1,392,919	1,889,953
Net financing need for the year	289,765	572,428	509,202	325,742
MRP & Financing	- 10,602	- 11,871	- 12,168	- 10,863
Total General Fund CFR	832,362	1,392,919	1,889,953	2,204,832
CFR - Housing	314,734	314,734	314,734	314,734
Net financing need for the year	-	-	-	-
Total HRA CFR	314,734	314,734	314,734	314,734
Total CFR	1,147,096	1,707,653	2,204,687	2,519,566
Movement in CFR	279,163	560,557	497,034	314,879

2. 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. The Council is asked to approve the following indicators:

2.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of General Fund Capital expenditure against the net revenue stream.

General Fund Cost of Capital	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate
	£000s	£000s	£000s
Net General Fund Base Budget	173,982	171,258	177,330
Cost of Capital			
MRP	8,352	8,502	8,652
GF Net Interest Budget	7,041	8,491	8,391
Investment Income	-5,725	-5,725	-5,725
Net Cost of Capital	9,668	11,268	11,318
Financing Cost to Net Revenue	5.56%	6.58%	6.38%

The estimates of financing costs include current commitments and the proposals in this budget report.

2.2 HRA ratios

This indicator identifies the trend in the cost of General Fund Capital expenditure against the net revenue stream:

	2021/22	2022/23	2023/24
	Estimate	Estimate	Estimate
	£000s	£000s	£000s
HRA debt £m	310,628	310,628	310,628
Number of HRA dwellings	16,447	16,112	15,763
Debt per dwelling £	18.9	19.3	19.7

3. Treasury indicator and limit for investments greater than 365 days.

The limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. They are based on the availability of funds at yearend. The maximum principal sums invested greater than 364 days is high to allow the treasury section to manage the significant cashflows expected as a result of the Council's IAS. The Council is asked to approve the treasury indicator and limit:

£'000s	2021/22	2022/23	2023/24
Maximum principal sums invested > 364 days	350,000	300,000	250,000

4. Treasury Indicators: Limits to Borrowing 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: identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure: is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing: gross limits to reduce the Council's exposure to large, fixed rate sums requiring refinancing.

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposures	2020/21	2021/22	2022/23
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
Limits on fixed interest rates:			
• Debt only	100%	100%	100%
• Investments only	90%	90%	90%
Limits on variable interest rates			
• Debt only	70%	70%	70%
• Investments only	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

5. Treasury Indicators: Limits to Borrowing Activity

5.1 The Operational Boundary - this is the limit beyond which external borrowing 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 borrowing. Given the uncertainty around the borrowing requirement resulting from the Council's IAS Programme, a margin of approximately £100m has been included in these figures to reflect potential additional borrowing above the current CFR for the IAS.

5.2 The Authorised Limit for external borrowing – this represents a control on the maximum level of borrowing, with a limit set, beyond which external borrowing is prohibited. This limit must be set or revised by the full Council. The limit set includes an additional margin for borrowing to fund the Council's IAS.

It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is also a 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 Operational Boundary and Authorised Limit:

Limits to Borrowing Activity	2020/21	2021/22	2022/23	2023/24
£'000s	Approved	Estimate	Estimate	Estimate
Operational Boundary	1,250,000	1,700,000	2,100,000	2,500,000
Authorised Limit	1,350,000	1,800,000	2,200,000	2,600,000

5.3 HRA CFR – with the proposed removal of the HRA debt limit the HRA CFR will be reviewed. The figures below are based on the previous debt limit and increased to take into account the transfer of Street Purchases to the HRA from the General Fund.

HRA Debt	2020/21	2021/22	2022/23	2023/24
£'000s	Approved	Estimate	Estimate	Estimate
Total	302,763	310,628	310,628	310,628