APPENDIX 3

The Capital Prudential and Treasury Indicators 2024/25 – 2026/27

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.

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. Local Authorities were expected to fully implement the Codes reporting changes within their TMSS/AIS reports from 2023/24.

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 CFR is the historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. Any capital expenditure which has not immediately been paid for will increase the CFR. The CFR does not increase indefinitely, as MRP, a statutory revenue charge, reduces the borrowing need in line with each asset's life. The CFR also includes other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, they include a borrowing facility and so the Council is not required to separately borrow for these schemes. Table 1 sets out the CFR until 2026/27 and are cumulative.

Table 1: Capital Expenditure Forecast Net Financing 2023/24 to 2026/27

Capital Expenditure	*2023/24 Estimate £000s*	*2024/25 Estimate £000s*	*2025/26 Estimate £000s*	*2026/27 Estimate £000s*
General Fund				
Gf - Adults Care & Support	*3,719*	*2,918*	*0*	*0*
Gf - Inclusive Growth	*6,373*	*611*	*0*	*0*
Gf - CIL	*761*	*0*	*0*	*0*
Gf - TfL	*4,226*	*2,200*	*2,200*	*0*
Gf - IT	*3,615*	*1,200*	*2,005*	*200*
Gf - Parks Commissioning	*12,925*	*153*	*83*	*0*

Gf - Culture and Heritage	*1,121*	*294*	*294*	*0*
Gf - Enforcement	*173*	*330*	*330*	*0*
Gf - My Place	*3,919*	*1,434*	*1,000*	*0*
Gf - Public Realm	*8,510*	*5,487*	*5,287*	*0*
Gf - Education, Youth & Child	*15,254*	*8,559*	*11,466*	*0*
Gf - Other	*136*	*0*	*0*	*0*
Transformation	*0*	*0*	*0*	*0*
Total GF Capital Expenditure	***60,732***	***23,186***	***22,664***	***200***
IAS Residential	*275,184*	*157,492*	*111,699*	*18,708*
IAS Commercial	*16,446*	*4,096*	*2,000*	*1,000*
Total IAS	***291,630***	***161,588***	***113,699***	***19,708***
HRA Stock Investment	*14,000*	*20,288*	*27,934*	*37,760*
HRA Estate Renewal	*4,000*	*4,400*	*0*	
HRA New Build Schemes	*544*	*0*	*0*	
HRA Total	***18,544***	***24,688***	***27,934***	***37,760***
Total Gross Capital Programme	***370,905***	***209,462***	***164,298***	***57,668***
Financed by:				
HRA/MRR	*-20,123*	*-26,170*	*-27,827*	*-29,774*
CIL/S106	*-1,372*	*-9*	*0*	
CIL/S106 - IAS		*0*	*-1,500*	*-1,762*
Revenue	*-1,132*	*-1,700*	*-1,500*	*0*
Capital Receipts	*0*	*0*	*-232*	*-3,226*
Self-Financing (excluding IAS)	*-1,979*	*0*	*0*	*0*
Other Grant	*-28,826*	*-13,782*	*-14,159*	*0*
IAS Grants (RtB, GLA) and sales	*-64,434*	*-64,031*	*-12,863*	*-94,527*
Total Financing	***-117,865***	***-105,692***	***-58,081***	***-129,289***
Financed by Borrowing	***253,040***	***103,770***	***106,217***	***-71,621***
PFI / Finance Lease Add. & Repay.	*-4,492*	*-4,811*	*-5,111*	*-5,459*
Net financing need for the year	***248,547***	***98,959***	***101,106***	***-77,080***

2. Treasury Indicators: Limits to Borrowing Activity

2.1 **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 (within table 2) but may be lower or higher depending on the levels of actual borrowing.

2.2 **The Authorised Limit for external borrowing:** 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 drop in operational boundary is due to the uncertainty and delays for pipeline scheme. There is the potential for the operational boundary to increase if new schemes are agreed. The Council is asked to approve the Operational Boundary and Authorised Limits below:

Table2: Capital Expenditure Forecast and Council's CFR 2023/24 – 2026/27

Capital Expenditure	*2023/24 Estimate* £000s	*2024/25 Estimate* £000s	*2025/26 Estimate* £000s	*2026/27 Estimate* £000s
Capital Financing Requirement				
Opening CFR as at 1 April	**1,707,121**	**1,936,636**	**2,022,432**	**2,108,431**
Change in Year – General Fund	229,515	85,796	85,999	-97,682
Change in Year – Housing	0	0	0	4,759
Net movement in CFR	**229,515**	**85,796**	**85,999**	**-92,923**
Total CFR as at 31 March	**1,936,636**	**2,022,432**	**2,108,431**	**2,015,508**
Net financing need for the year	**248,547**	**98,959**	**101,106**	**-77,080**
Less: MRP*	-11,333	-13,163	-15,107	-15,843
Less: Capital Receipts	-7,700	0	0	0
Movement in CFR	**229,515**	**85,796**	**85,999**	**-92,923**
Long & Short-Term Borrowing	1,350,000	1,450,000	1,550,000	1,500,000
PFI and finance lease liabilities	271,068	266,444	261,557	256,333
Total debt 31 March	**1,621,068**	**1,716,444**	**1,811,557**	**1,756,333**
Under / (Over) Borrowing	**315,567**	**305,987**	**296,873**	**259,175**
Operational Boundary	**1,850,000**	**1,900,000**	**2,000,000**	**1,850,000**
Authorised Limit	**1,950,000**	**2,000,000**	**2,100,000**	**1,950,000**

** MRP is estimated, based on when schemes will be operational and start repaying capital*

2.3 The CFR includes gross capital spend on schemes where there is GLA grant as the spend is still picked up in the CFR calculation, but the Council has received the GLA grant. The CFR will reduce by £86.5m, which will reduce the under borrowed position.

The under borrowed position is likely to reduce over time as the Council's reserves are reduced to fund shortfalls in the Council's funding. The use of reserves will result in a reduction in internal borrowing, which will also reduce the Council's cash balances, requiring the Council to borrow to closer to the CFR level.

3. Affordability prudential indicators

3.1 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:

3.2 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. MRP is net of self-financing, which includes the investment strategy and leases. MRP will be much higher but will be funded from the income streams generated from rent. The interest budget will also change significantly with a large increase in interest payable and receivable. The net budget has been used but there is an expectation that interest costs will be lower than the net budget.

General Fund Cost of Capital	2023/24 Budget	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£000s	£000s	£000s	£000s
Net Cost of Services	**194,460**	**221,745**	**233,990**	**247,026**
Cost of Capital				
GF Interest Payable	10,139	30,849	33,903	38,561
GF Interest receivable	-6,503	-25,629	-29,338	-34,280
MRP (excluding leases)	11,216	10,792	10,792	11,034
Investment Strategy & Other Income	-5,816	-6,245	-5,590	-5,306
Total Net Budget	**9,036**	**9,767**	**9,767**	**10,009**
Financing Cost to Net Revenue	**4.65%**	**4.40%**	**4.17%**	**4.05%**

Excluding investment income, the cost of capital is higher at between 7.64% and 6.20%, as outlined in the table below:

General Fund Cost of Capital	2023/24 Budget	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£000s	£000s	£000s	£000s
Net Cost of Services	**194,460**	**221,745**	**233,990**	**247,026**
Cost of Capital				
GF Interest Payable	10,139	30,849	33,903	38,561
GF Interest receivable	-6,503	-25,629	-29,338	-34,280
MRP (excluding leases)	11,216	10,792	10,792	11,034
Total Net Budget	**14,852**	**16,012**	**15,357**	**15,315**
Financing Cost to Net Revenue	**7.64%**	**7.22%**	**6.56%**	**6.20%**

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

4.1 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 has been reduced as the capital programme reduces and there is a reduced need to hold cash outside of liquidity requirements. If significant asset sales were to occur over the next few years then levels will be reviewed. The Council is asked to approve the treasury indicator and limit:

£'000s	2023/24	2024/25	2025/26	2026/27
Max. principal sums invested>364 days	50,000	50,000	50,000	50,000

5. Treasury Indicators: Limits to Borrowing Activity

5.1 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. These are no longer required as PIs but are included as a local indicator. 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	2024/25	2025/26	2026/27
	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 2024/25		
	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 2024/25		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

5.2 HRA CFR Forecast

HRA Debt £'000s	2023/24 Approved	2024/25 Estimate	2025/26 Estimate	2025/26 Estimate
Total	**310,628**	**310,628**	**310,628**	**310,628**

6. Liability Benchmark Treasury Indicator

6.1 There are four components to the liability benchmark:

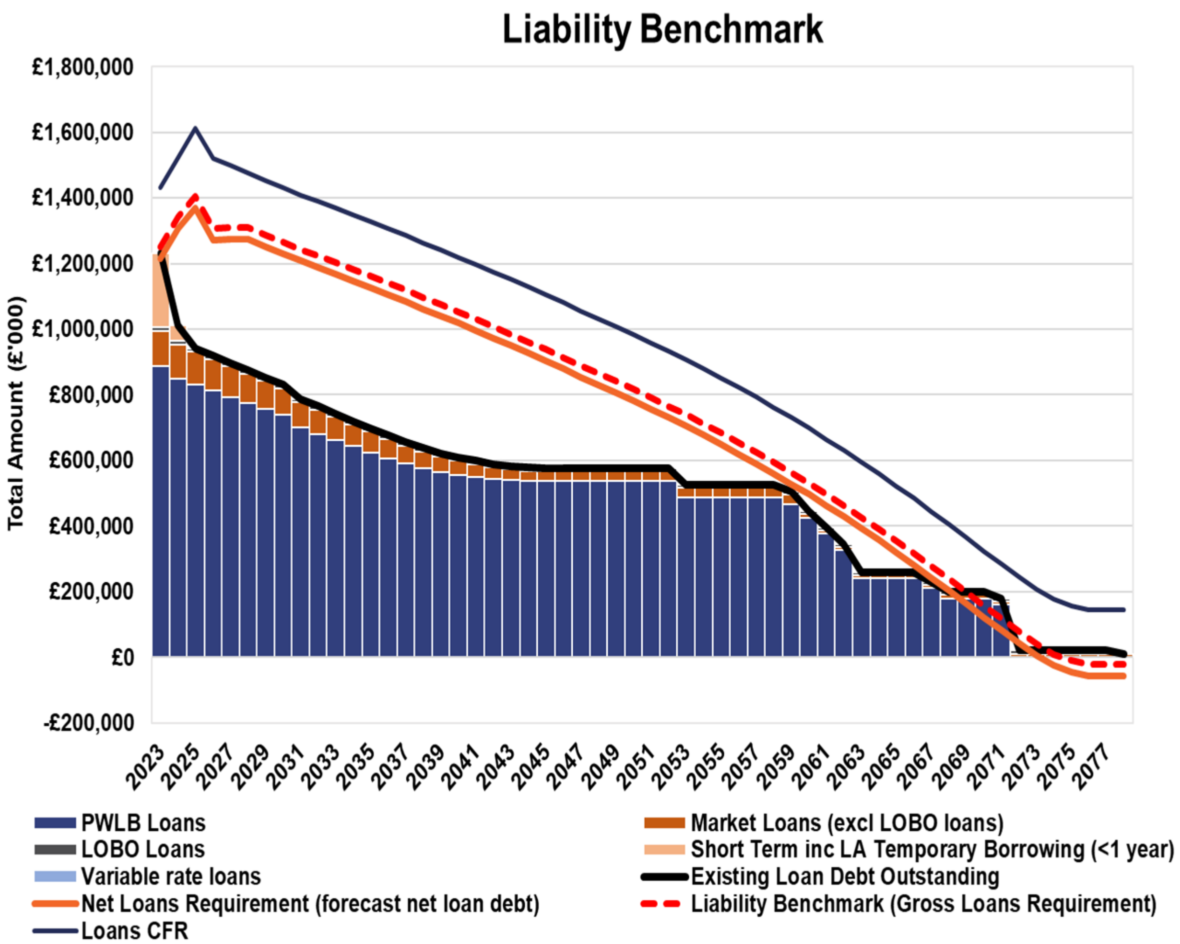
i. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

ii. **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.

iii. **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.

iv. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

6.2 The liability benchmark shows the Council's liabilities, excluding PFI and finance leases over time. It shows how much has been borrowed, how much needs to be borrowed and the repayment profile.



6.3 The liability benchmark shows there is a significant borrowing requirement for both completion of the current capital programme but also to refinance borrowing, including the current significant short-term borrowing position. It is important to note that the borrowing requirement is lower than in past years as the capital programme has reduced. To reduce the gap will require borrowing or the sale of assets and both options are being looked at. A liquidity allowance has been included in the chart at £30m.

6.4 As outlined in section 2.3, the CFR and loans CFR is higher than would be expected due to the GLA grant of £86.5m not been used, yet, to reduce the CFR.