Appendix 1

The Prudential Code for Capital Investment in Local Authorities

1. Introduction

1.1 There are a number of treasury indicators which previously formed part of the Prudential Code, but which are now more appropriately linked to the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code). Local authorities are still required to "have regard" to these treasury indicators.

1.2 The key treasury indicators which are still part of the Prudential Code are:

- Authorised limit for external debt;
- Operational boundary for external debt; and
- Actual external debt.

2. Net borrowing and the Capital Financing Requirement

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need;

2.2 To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This means that the Council is not borrowing to support revenue expenditure.

2.3 Net borrowing must not, except short term, exceeded the Capital Financing Requirement ("CFR") for 2023/24 plus the expected changes to the CFR over 2023/24 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24.

2.4 The Council uses borrowing to fund its Investment and Acquisition Strategy (IAS), which is predominantly focused on the regeneration of the borough and the provision of affordable housing. Prior to any investment a scheme is appraised to ensure that it is financially viable and provides a contribution to the Council that will, at a minimum, cover its interest costs and Minimum Revenue Provision (MRP) contribution, as well as pay for its management and maintenance costs. The IAS will result in a significant increase in the Council's borrowing, but this will be supported by an asset of a similar value being built and cash flows into the Council to support the increased borrowing.

2.5 Once a scheme is agreed and after development starts, treasury will seek to secure the borrowing to fund the scheme at a competitive rate. As such, from time to time, the Council may hold a higher than average cash balance as it holds the borrowed amount until it is required for the investment. It also means that decisions made on future schemes may have different borrowing rate assumptions, depending on borrowing rates at the time.

2.6 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

2.7 **The authorised limit** – This sets the maximum level of external borrowing on a gross basis (i.e. Not net of investments) and is the statutory limit determined under Section 3 (1) of the Local Government Act 2003 (referred to in the legislation as Affordable Limit).

2.8 **The operational limit** – This links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limits reflecting the most likely prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit for future known capital needs now. It should act as a monitor indicator to ensure the authorised limit is not breached.

2.9 **Total external borrowing**, including PFI and Finance Leases at 31 March 2024 was £1.59bn, which is lower than the Approved Authorised Limit of £1.95bn and Operational Boundary of £1.85bn. During 2023/24 there were no breaches of these limits.

3. Capital Outturn and Capital Finance Requirement for 2023/24

3.1 The capital budget for 2023/24 was £336.7m and consists of £44.4m for the General Fund, £16.9m for HRA, £275.2m for the IAS and £0.2m for PFI lifecycle costs. The total revised budget was £340.4m, with the overall delivery at 99.0%. Several IAS schemes completed in 2023/24 and grant was allocated to the schemes as they completed and were handed over to Reside, which reflects the high level of grant. A number of projects will be reprofiled in 2024/25 to take into account the carry forward amounts.

3.2 The HRA programme is self-financed using a mixture of Government grants, capital receipts and HRA revenue funding. Therefore, they do not pose a pressure on the General Fund, in terms servicing the cost of borrowing. The HRA spend was a small underspend for stock investment, however this is against a much reduced, revised budget. Estate renewal, including buybacks underspent by £0.5m and this will be carried forward to 202/24.

3.3 The 2023/24 outturn position is detailed below:

Capital Expenditure by Service	Outturn 2023-24	Revised Budget 2023-24	Variance
	£000s	£000s	£000s
CARE & SUPPORT	2,972	3,719	(747)
INCLUSIVE GROWTH	1,604	6,785	(5,181)
CIL	141	761	(620)
TFL	3,224	5,134	(1,910)
COMMUNITY SOLUTIONS	2	6	(4)
IT	2,798	3,615	(817)

CULTURE & HERITAGE	62	1121	(1,059)
MY PLACE	1,632	3,853	(2,221)
ENFORCEMENT	18	173	(155)
PUBLIC REALM	5,853	8,510	(2,657)
PARKS COMMISSIONING	6,926	13,009	(6,083)
EDUCATION, YOUTH & CHILD	17,569	15,559	2,010
SALIX	51	130	(79)
SCHOOLS CAPITAL DFC	1,508	0	1,508
General Fund	**44,359**	**62,375**	**(18,016)**
HRA			
STOCK INVESTMENT	13,085	14,000	(915)
ESTATE RENEWAL	3,526	4,000	(474)
NEW BUILD SCHEMES	294	544	(250)
HRA Total	**16,905**	**18,544**	**(1,639)**
IAS			
RESIDENTIAL	261,116	242,017	19,099
COMMERCIAL	14,079	17,450	(3,371)
IAS Total	**275,195**	**259,467**	**15,728**
Add: PFI Lifecycle costs	198		
Approved Capital Programme	**336,656**	**340,386**	**(3,928)**
Financed by:			
Grants	(27,465)	(103,391)	
s106 / CIL	(4,426)	(726)	
Capital Receipts	(17,808)		
MRR	(17,987)	(27,181)	
RCCO (GF)	(2,280)	(3,654)	
RCCO (HRA)	-		
Sub-Total	**(69,965)**	**(134,952)**	**0**
Net borrowing requirement for the year	**266,691**	**205,434**	**(3,928)**
Prudential Indicator – Capital Financing Requirement			
Opening CFR at 31 March 2023	**1,707,121**	**1,707,121***	**0**
CFR – General Fund	178,921	140,434	38,487
CFR – Housing	0	0	-
Net movement in CFR	178,921	290,953	(112,032)
Total CFR as at 31 March 2024	**1,886,042**	**1,847,555**	**38,487**
Net financing need for the year	266,691	205,434	61,257
Less: MRP*	(15,616)		(15,616)
Less: Capital Receipts and Grant Adjustments	(72,155)	(65,000)	(7,155)
Movement in CFR	**178,921**	**140,434**	**38,487**
Long & Short-Term Borrowing	1,321,652	1,352,000	(30,348)
PFI and finance lease liabilities	271,068	271,068	0
Total debt 31 March 2022	**1,592,720**	**1,623,068**	**(30,348)**

(Under) / Over Borrowing	(293,322)	(224,487)	(68,835)
Operational Boundary	1,850,000	1,850,000	0
Authorised Limit	1,950,000	1,950,000	0

**total adjusted to match 2022/23 outturn*

4. Affordability Prudential Indicators.

4.1 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.

4.2 The ratio of financing costs to net revenue stream. This indicator identifies the cost of capital (borrowing and MRP net of investment income) against the net revenue stream. For 2023/24 this was 3.61%, with most of the cost being MRP. In future the interest payable will increase significantly as the Council continues to borrow and the treasury income is likely to reduce as cash balances are reduced but there will be a significant increase in interest income from loans. There is forecast to be a significant increase in investment income.

Table 2: Ratio of financing costs to net revenue stream 2023/24

General Fund Cost of Capital	2023/24 Outturn	2023/24 Revised Budget	Over / (Under) spend
	£000s	£000s	£000s
Net Cost of Services	**200,115**	**194,460**	**5,655**
Cost of Capital			
General Fund Return	10,308	10,874	(566)
IAS Residential and Commercial Return	(1,093)	(2,604)	(1,511)
IAS Other Return	(1,987)	(1,776)	(212)
Net Cost of Capital	**7,228**	**6,494**	**(2,289)**
Financing Cost to Net Revenue	**3.61%**	**3.34%**	

5. Limits for Fixed and Variable Interest Exposure

5.1 The following prudential indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure is set to ensure the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The Council's existing level of fixed interest rate exposure is 100.0% and variable rate exposure is 0.0%. The high fixed interest rate is as a result of locking in low long-term rates for the HRA borrowing and for the IAS, which invests in property, which requires certainty over the cost of borrowing.

Table 3: Fixed and variable rate exposure 2023/24 to 2024/25

Interest rate exposures	2023/24	2023/24	2024/25
	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*** • ***Investments only***	 100% 90%	 100% 90%	 100% 90%
Limits on variable interest rates • ***Debt only*** • ***Investments only***	 70% 80%	 70% 80%	 70% 80%

6. Maturity Structure of Fixed Rate Borrowing

6.1 This prudential indicator deals with projected borrowing over the period and the rates that they will mature over the period. The majority of GF borrowing is either equal instalment repayment or annuity repayment, which means that each year a part of the loan is repaid. Table 4 summarises the borrowing structure based on £895.2m GF and £295.9m HRA Borrowing long and short-term borrowing.

Table 4: HRA Borrowing as at 31 March 2024

Maturity structure of HRA fixed interest rate borrowing 2023/24				
	Actual Position £000s	Lower	Lower	Upper
Under 12 months	-	0%	0%	50%
12 months to 2 years	-	0%	0%	60%
2 years to 10 years	-	0%	0%	70%
10 years to 20 years	50,000.00	16.9%	0%	70%
20 years to 30 years	50,000.00	16.9%	0%	100%
30 years to 40 years	185,912.00	62.8%	0%	100%
40 years to 50 years	-	0.0%	0%	100%
50 years and above	10,000.00	3.4%	0%	100%
Total Borrowing	295,912.00	100.0%	0%	100%

Table 4: GF Borrowing as at 31 March 2024

Maturity structure of General Fund fixed interest rate borrowing 2023/24				
	Actual Position £000s	Lower	Lower	Upper
Under 12 months	323,900	36.18%	0%	50%
12 months to 2 years	20,000	2.23%	0%	60%
2 years to 10 years	20,000	2.23%	0%	70%
10 years to 20 years	269,500	30.10%	0%	70%
20 years to 30 years	112,340	12.55%	0%	100%
30 years to 40 years	90,000	10.05%	0%	100%
40 years to 50 years	180,000	20.11%	0%	100%
50 years and above	10,000	1.12%	0%	100%
Total Borrowing	895,205	100.00%	0%	100%

7. Investments over 364 days

7.1 The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. Taking into account the current level of investments, and future projections of capital expenditure, the following limits will be applied to sums invested:

Maximum principal sums invested > 364 days £'000s	2023/24 £000s	2024/25 £000s	2025/26 £000s
Principal sums invested > 364 days	300,000	250,000	220,000

8.1 Summary Assessment

8.1 The outturn position is set out above in respect of the Prudential Indicators approved by Assembly in February 2022.

8.2 The outturn figures confirm that the limits and controls set for 2023/24 were applied throughout the year, and that the treasury management function adhered to the key principles of the CIPFA Prudential Code of prudence, affordability and sustainability. The treasury management indicators were regularly monitored throughout 2023/24.