

The Capital Prudential and Treasury Indicators 2019/20 – 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 2019/20 – 2023/24

| Capital expenditure | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--------------------------------------------|----------------|----------------|----------------|---------------|---------------|
| | £000s | £000s | £000s | £000s | £000s |
| General Fund | | | | | |
| Adults Care & Support | 2,241 | 2,241 | 2,241 | 2,241 | 2,241 |
| CIL / TFL | - | 4,322 | 1,323 | - | - |
| Community Solutions | 210 | - | - | - | - |
| Core | 2,562 | 3,492 | 340 | 340 | 340 |
| Culture, Heritage & Recreation | 1,750 | 10,015 | 450 | 305 | 150 |
| Education, Youth and Childcare | 42,346 | 42,958 | 3,895 | - | - |
| Enforcement | 1,269 | 2,908 | - | - | - |
| My Place | 8,122 | 3,625 | 4,295 | 4,295 | 4,295 |
| Public Realm | 7,571 | 3,179 | 50 | - | - |
| Transformation | 4,500 | 6,495 | - | - | - |
| Financed by: | - | - | - | - | - |
| Capital Grants | - 57,465 | - 48,449 | - 6,136 | - 2,241 | - 2,241 |
| Section 106 | - | - | - | - | - |
| CIL/TFL | - | - 4,819 | - 1,323 | - | - |
| Revenue Contributions | - 340 | - 340 | - 340 | - 340 | - 340 |
| Total Net Borrowing Requirement | 12,767 | 25,627 | 4,795 | 4,600 | 4,445 |
| Housing Revenue Account (HRA) | | | | | |
| HRA | 37,472 | 48,958 | 30,302 | 39,000 | 39,000 |
| Financed by: | - | - | - | - | - |
| HRA Contributions | - 37,472 | - 48,958 | - 30,302 | - 39,000 | - 39,000 |
| Total Net Borrowing Requirement | - | - | - | - | - |
| Investment and Acquisition Strategy | | | | | |
| Residential | 135,062 | 227,743 | 313,119 | 155,660 | 120,074 |
| Commercial | 53,597 | 25,305 | - | - | - |
| Financed by: | - | - | - | - | - |
| HRA & GLA Grant Income | - 23,040 | - 21,395 | - 5,701 | - 32,099 | - 19,448 |
| Total RtB Receipts Income | - | - 2,000 | - 25,340 | - 33,895 | - 17,165 |
| Total Sales Income | - 2,486 | - 6,017 | - 8,538 | - 31,167 | - 48,407 |
| Total Net Borrowing Requirement | 163,133 | 223,636 | 273,540 | 58,499 | 35,055 |
| Net financing need for the year | 175,900 | 249,263 | 278,335 | 63,099 | 39,500 |

| Capital expenditure | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | Estimate £000 | Estimate £000 | Estimate £000 | Estimate £000 | Estimate £000 |
| Capital Financing Requirement | | | | | |
| Opening CFR – General Fund | 464,861 | 606,268 | 844,325 | 1,110,789 | 1,161,579 |
| Net financing need for the year | 175,900 | 249,263 | 278,335 | 63,099 | 39,500 |
| Movement Between HRA and GF | -24,291 | | | | |
| Investment Debt Repayment (MRP) | | | | -141 | -418 |
| Other MRP & Financing | -10,202 | -11,206 | -11,871 | -12,168 | -10,863 |
| Total General Fund CFR | 606,268 | 844,325 | 1,110,789 | 1,161,579 | 1,189,798 |
| CFR – Housing | 278,472 | 302,763 | 302,763 | 302,763 | 302,763 |
| Net financing need for the year | | 0 | | | |
| Movement Between HRA and GF | 24,291 | | | | |
| Total HRA CFR | 302,763 | 302,763 | 302,763 | 302,763 | 302,763 |
| Total CFR | 909,031 | 1,147,088 | 1,413,552 | 1,464,342 | 1,492,561 |
| Movement in CFR | 165,698 | 238,057 | 266,464 | 50,790 | 28,219 |

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 | 2020/21 | 2021/22 | 2022/23 |
|--------------------------------------|----------------|----------------|----------------|
| | Estimate | Estimate | Estimate |
| | £000s | £000s | £000s |
| Net General Fund Base Budget | 148,820 | 155,795 | 154,374 |
| Cost of Capital | | | |
| MRP | 7,398 | 7,548 | 7,698 |
| GF Net Interest Budget | 7,733 | 8,209 | 8,667 |
| Investment Income | -5,125 | -5,125 | -5,125 |
| Net Cost of Capital | 10,006 | 10,632 | 11,240 |
| | | | |
| Financing Cost to Net Revenue | 6.72% | 6.82% | 7.28% |

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

| | 2020/21 | 2021/22 | 2022/23 |
|--------------------------------|-------------|-------------|-------------|
| | Estimate | Estimate | Estimate |
| | £000s | £000s | £000s |
| HRA debt £m | 302,763 | 302,763 | 302,763 |
| Number of HRA dwellings | 17,148 | 16,928 | 16,708 |
| Debt per dwelling £ | 17.7 | 17.9 | 18.1 |

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 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|------------------------------------------------------|---------|---------|---------|---------|
| Maximum principal sums invested > 364 days | 450,000 | 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% | 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. 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 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| £'000s | Approved | Estimate | Estimate | Estimate | Estimate |
| Operational Boundary | 1,052,000 | 1,250,000 | 1,500,000 | 1,570,000 | 1,600,000 |
| Authorised Limit | 1,152,000 | 1,350,000 | 1,600,000 | 1,670,000 | 1,700,000 |

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 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|----------|----------|----------|----------|----------|----------|
| £'000s | Approved | Estimate | Estimate | Estimate | Estimate |
| Total | 278,472 | 302,763 | 310,628 | 310,628 | 310,628 |