

Prudential Indicators 2023-24 to 2026-27

- The Local Government Act 2003 requires the council to have regard to the Chartered Institute of Public Finance and Accountancy's *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 capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

- The council's planned capital expenditure and financing is as summarised below. Further detail is provided in the month 8 capital monitoring for 2023-24 as reported to cabinet on 17 January 2024.

| 2022-23 Actual £m | Capital Expenditure and Financing | 2023-24 Forecast £m | 2024-25 Estimate £m | 2025-26 Estimate £m | 2026-27 Estimate £m |
|-------------------------|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| 88 | General Fund | 110 | 147 | 44 | 23 |
| 318 | HRA | 360 | 263 | 182 | 164 |
| 406 | Total Expenditure | 470 | 410 | 225 | 187 |
| 37 | Capital Receipts | 35 | 29 | 5 | 12 |
| 145 | Capital Grants | 46 | 26 | 19 | 30 |
| 89 | Revenue and Reserves | 61 | 60 | 60 | 60 |
| 0* | External Contributions | 41 | 18 | 12 | 12 |
| 135 | Funded by Borrowing | 287 | 276 | 130 | 72 |
| 406 | Total Financing | 470 | 410 | 225 | 187 |

* included in Capital Grants

Estimates of Capital Financing Requirement

- The Capital Financing Requirement (CFR) measures the council's underlying need to borrow for a capital purpose.
- The implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) has been deferred to 01 April 2024. Existing leases have been reclassified leading to an increase in the council's reported CFR for 2024-25.
- The CFR is forecast to rise over the next three years as capital expenditure financed by debt is outweighed by resources set aside for debt repayment. See table below.

| 2022-23 Actual £m | Capital Financing Requirement | 2023-24 Forecast £m | 2024-25 Estimate £m | 2025-26 Estimate £m | 2026-27 Estimate £m |
|----------------------------------|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 704 | General Fund | 780 | 988 | 1,007 | 1,006 |
| 788 | HRA | 921 | 1,085 | 1,181 | 1,240 |
| 1,492 | Total CFR | 1,701 | 2,073 | 2,188 | 2,246 |

Gross Debt and the Capital Financing Requirement

6. In order to ensure that over the medium term debt will only be for a capital purpose, the council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. Actual external borrowing is expected to remain under this value.

| 31-03-23 Actual £m | Gross Debt and Capital Financing Requirement | 31-03-24 Forecast £m | 31-03-25 Estimate £m | 31-03-26 Estimate £m | 31-03-27 Estimate £m |
|-----------------------------------|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| 1,067 | Gross Projected Debt | 1,247 | 1,730 | 1,855 | 1,922 |
| 1,492 | Capital Financing Requirement | 1,701 | 2,074 | 2,189 | 2,245 |
| 425 | Under / (Over) Borrowing | 454 | 344 | 334 | 323 |

7. Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

8. The operational boundary is based on the council's estimate of the most likely (i.e. significantly prudent but not worst case) scenario for external debt. It links directly to the council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing, but form part of the council's debt.

| 2022-23 £m | Operational Boundary | 2023-24 £m | 2024-25 £m | 2025-26 £m | 2026-27 £m |
|---------------|-----------------------------|---------------|---------------|---------------|---------------|
| 991 | Borrowing | 1,176 | 1,452 | 1,684 | 1,756 |
| 76 | Other Long-Term Liabilities | 71 | 176 | 171 | 166 |
| 1,067 | Total Debt | 1,247 | 1,628 | 1,855 | 1,922 |

Authorised Limit for External Debt:

9. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 / Local Government Finance Act. It is the maximum amount of debt that the council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

| 2022-23 £m | Authorised Limit | 2023-24 £m | 2024-25 £m | 2025-26 £m | 2026-27 £m |
|---------------|-----------------------------|---------------|---------------|---------------|---------------|
| 1,824 | Borrowing | 1,270 | 1,555 | 1,780 | 1,855 |
| 120 | Other Long-Term Liabilities | 120 | 210 | 210 | 210 |
| 1,944 | Total Debt | 1,390 | 1,765 | 1,990 | 2,065 |

Ratio of Financing Costs to Net Revenue Stream

10. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

| 2022-23 Actual | Ratio of Financing Costs to Net Revenue Stream | 2023-24 Estimate | 2024-25 Estimate | 2025-26 Estimate | 2026-27 Estimate |
|-------------------|--|---------------------|---------------------|---------------------|---------------------|
| 4% | General Fund | 6% | 7% | 8% | 8% |
| 7% | HRA | 12% | 15% | 15% | 15% |

Debt Limits

11. There are three debt related treasury activity limits. The purpose of these is to manage the overall risk for the council and limit the exposure to any adverse movement in interest rates. Debt shall be subject to the following limits:

| Debt maturity profile limits | Lower Limit | Upper Limit |
|-------------------------------------|--------------------|--------------------|
| Under 12 months | 0% | 35% |
| 12 months and within 24 month | 0% | 35% |
| 24 months and within 5 years | 0% | 50% |
| 5 years and within 10 years | 0% | 75% |
| 10 years and above | 25% | 100% |

Adoption of the CIPFA Treasury Management Code

12. The council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code of Practice*. It fully complies with the Code's recommendations.