Appendix 1 – Capital Prudential Indicators

1. Introduction

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

The Indicators laid out in this appendix are required to help Members understand and evaluate the prudence and affordability of the Authority's capital expenditure plans and the borrowing and investment activities undertaken in support of this.

2. Capital Expenditure

This provides a summary of the Authority's capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods. The extent to which such expenditure is to be financed will influence how the Authority's Capital Financing Requirement Indicator (see point 3 below) will change.

Table A1: Capital Expenditure

	Actual 22/23 £m	Estimate 23/24 £m	Estimate 24/25 £m	Estimate 25/26 £m
Service Loans	6.0	5.0		
Capital Projects	9.4	23.2	15.4	2.4
New Finance Lease and PFI				
New Projects (not yet approved by Full Council)			7.0	
Total Capital Expenditure	15.4	28.2	22.4	2.4
Financed by:				
Capital Receipts (Asset Disposals)	(0.8)	(0.2)	(0.8)	(0.2)
Capital Receipts (Loan Principal)	(6.0)	(11.0)		
Revenue Contributions				
Grants and other contributions (existing projects)	(4.5)	(6.5)	(7.2)	(1.2)
Grants and other contributions (new projects)			(4.7)	
Finance Lease and PFI liabilities				
Total financing	(11.3)	(17.7)	(12.7)	(1.4)
Net financing need for year	**4.1**	**10.5**	**9.7**	**1.0**

From this indicator it can be seen that the majority of the Council's capital expenditure is financed from capital receipts or grants and so does not significantly increase financing costs. The following indicators show that the residual amounts that require financing from the revenue budget are proportionate and affordable.

3. Capital Financing Requirement

The Capital Financing Requirement (CFR) shows the difference between the Authority's capital expenditure and the revenue or capital resources set aside to finance that spend.

The CFR will increase where capital expenditure takes place and will reduce as the Authority makes Minimum Revenue Provision (MRP) or otherwise sets aside revenue or capital resources to finance expenditure.

Table A2: Capital Financing Requirement

	Actual 22/23 £m	Estimate 23/24 £m	Estimate 24/25 £m	Estimate 25/26 £m
Opening CFR	242.2	242.2	247.1	251.1
Capital Spend	15.4	28.2	22.4	2.4
Resources used	(11.3)	(17.7)	(12.7)	(1.4)
MRP	(4.1)	(5.6)	(5.7)	(5.9)
Closing CFR	**242.2**	**247.1**	**251.1**	**246.2**

This indicator show that the total financing requirement is estimated to stay relatively level across the next three years. Each year the council sets a prudent MRP policy that will set aside revenue resources to finance capital expenditure over the life of the assets.

4. Gross Debt and the Capital Financing Requirement

An authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.

The Authority should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the next two financial years.

If the level of gross borrowing is below the Authority's capital borrowing need – the CFR – it demonstrates compliance with the requirement of this Indicator.

Table A3: Gross Debt & Capital Financing Requirement

	Actual 22/23 £m	Estimate 23/24 £m	Estimate 24/25 £m	Estimate 25/26 £m
CFR	242.2	247.1	251.1	246.2
Gross borrowing	188.0	186.0	191.0	186.0
Under / (over) borrowing	**54.2**	**61.1**	**60.1**	**60.2**

This indicator shows that the council is under borrowed, and so that debt is only being used to support capital expenditure. Under borrowing indicates that the council has been prudent and used internal borrowing to reduce the interest cost that is associated with external borrowing.

5. Operational Boundary and Authorised Limit

Estimated gross borrowing together with the level of other long-term liabilities are used to reveal the possible level of external debt. This clarifies the Authority's overall level of possible external debt in comparison to the Authority's Operational Boundary and Authorised Limit.

The Operational Boundary is the limit beyond which external debt is not normally expected to exceed.

Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.

Table A4: Estimated Debt, Operational Boundary and Authorised Limit

	£m
Borrowings	186
Internal Borrowing	61.1
Other long-term liabilities	34.9
2023/24 Debt Estimate	**282**
2023/24 Operational Boundary	**290**
2023/24 Authorised Limit	**310**

The council continues to have debt below its operational boundary, indicating that the council is effectively managing its debt and cashflows.

6. Financing cost to Net Revenue Stream

This Indicator shows the trend in the cost of capital (borrowing and other long-term obligation costs) against the net revenue stream. Funding includes income such as Council tax, Business Rates as well as new homes bonus and revenue support government grants but excludes income from investments.

The forecast is in line with the approved Capital Strategy.

Table A5: Ratio of Financing costs to Net Revenue stream

	Actual 22/23 £m	Estimate 23/24 £m	Estimate 24/25 £m	Estimate 25/26 £m
Interest costs on existing borrowing	3.6	3.8	4.5	4.8
MRP	4.1	5.6	5.7	5.9
Total Financing Costs	7.7	9.4	10.2	10.7
Funding	22.6	28.2	27.0	22.1
Non-specific grant income	1.4	3.0	3.0	0.0
Net Revenue Stream	24.0	31.2	30.0	22.1
Ratio of Financing costs	**32.1%**	**30.1%**	**34.0%**	**48.4%**

This indicator shows that the ratio of financing costs to net revenue streams is high, however what this doesn't consider is that a large proportion of the council's financing costs are offset by the interest from on-lending to the Council's subsidiaries, and income generated by the commercial assets acquired as part of the regeneration programme. See item 7 below for detail on this.

7. Net Income from Service Investment Income to Net Revenue Stream

The next indicator is the Net income from Commercial and Service investments Income to Net Revenue Stream. This Indicator shows the financial exposure of the Authority to the loss of its non-treasury investment income.

The Council does not hold any commercial investments. All investments that are not treasury related are service investments, the majority relating to housing and regeneration.

Table A6: Ratio of Investment Income to Net Revenue stream

	Actual 22/23 £m	Estimate 23/24 £m	Estimate 24/25 £m	Estimate 25/26 £m
Income from long term investments	4.9	5.1	4.5	4.5
Income from assets	2.7	3.3	3.1	5.3
Total Investment income	7.6	8.4	7.6	9.8
Funding	22.6	28.2	27.0	22.1
Non-specific grant income	1.4	3.0	3.0	0.0
Net Revenue Stream	24.0	31.2	30.0	22.1
Ratio of investment income	**31.8%**	**27.0%**	**25.4%**	**44.2%**

The last two ratios dovetail, as much of the debt was incurred with the expectation of non-treasury investment income that would in part offset the financing costs. Deducting the Ratio of net income from Service Investments from the Ratio of Financing costs reveals the affordability ratio.

Table A7: Affordability Ratio

	22/23	23/24	24/25	25/26
Ratio of Financing costs	32.1%	30.1%	34.0%	48.4%
Ratio of Investment income	31.8%	27.0%	25.4%	44.2%
Affordability ratio	**0.3%**	**3.1%**	**8.6%**	**4.2%**

There is no established Local Authorities benchmark for this ratio as activities differ widely. Interest earned on Treasury investment is not taken into account in either of the calculations and therefore it is not unexpected to see a positive percentage when the two are netted off against each other.

The affordability ratio shows that after taking into account the income relating to the capital expenditure that is being financed the Council has an affordable net cost of capital financing.