

## Appendix 1 – Capital Prudential Indicators

### 1. Introduction

This appendix is structured to update members on:

- The council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

### 2. Capital Expenditure

This provides a summary of the council's capital expenditure for 25/26. It reflects the original estimate from the 24/25 Treasury Management annual performance report, the current actual spent, as well as the revised position for 25/26.

Table A1: Capital Expenditure

	25/26 Original Estimate £m	25/26 Current Position £m	25/26 Revised Estimate £m
Service Loans			
Capital Projects	13.6	2.2	9.3
New Finance Lease and PFI			
New Projects (not yet approved by Council)			
<b>Total Capital Expenditure</b>	<b>13.6</b>	<b>2.4</b>	<b>9.5</b>
Financed by:			
Capital Receipts (Asset Disposals)	(5.1)		
Capital Receipts (Loan Principal)			
Revenue Contributions			
Grants and other contributions (existing projects)	(5.8)	(1.7)	(5.9)
Grants and other contributions (new projects)			
Finance Lease and PFI liabilities			
<b>Total financing</b>	<b>(10.9)</b>	<b>(1.7)</b>	<b>(5.9)</b>
<b>Net financing need for year</b>	<b>2.7</b>	<b>0.5</b>	<b>3.4</b>

The current and revised estimates have been taken from the mid-year forecasting. This indicator reflects that most of the capital expenditure is expected to take place in the 3<sup>rd</sup> and 4<sup>th</sup> quarter, however delays could lead to reprofiling spend to 26/27.

### 3. Capital Financing Requirement

The Capital Financing Requirement (CFR) shows the difference between the council'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 council makes Minimum Revenue Provision (MRP) or otherwise sets aside revenue or capital resources to finance expenditure.

Table A2: Capital Financing Requirement

	25/26 Original Estimate £m	25/26 Revised Estimate £m
Opening CFR	241.6	235.5
Capital Spend	13.6	9.3
Resources used	(10.9)	(5.9)
MRP	(4.7)	(4.2)
<b>Closing CFR</b>	<b>239.7</b>	<b>234.7</b>

This reflects the reduction in capital expenditure forecast.

#### 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 council should ensure that gross debt does not, except in the short-term, exceed the total of the CFR. If the level of gross borrowing is below the council's capital borrowing need – the CFR – it demonstrates compliance with the requirement of this Indicator.

Table A3: Gross Debt & Capital Financing Requirement

	25/26 Original Estimate £m	25/26 Revised Estimate £m
CFR	239.7	234.7
Gross borrowing	179.0	149.0
<b>Under / (over) borrowing</b>	<b>60.7</b>	<b>85.7</b>

This indicator shows that the council is under borrowed and that debt is only being used to support capital expenditure.

In April 2025, a £25m loan due to mature in November 2071 was repaid for the principal amount of £10.4m, with the council retaining the £14.6m discount. The discount has strengthened working capital and supports an increase in internal borrowing, contributing to reduced reliance on external debt and delivering savings on interest costs.

#### 5. 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 Council'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

	25/26 Original Estimate £m	25/26 Revised Estimate £m
External Borrowings	179	149
<b>Operational Boundary</b>	<b>200</b>	<b>200</b>
<b>Authorised Limit</b>	<b>310</b>	<b>310</b>

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 Grant but excludes income from investments.

Table A5: Ratio of Financing costs to Net Revenue stream

	25/26 Original Estimate £m	25/26 Revised Estimate £m
Interest costs on existing borrowing	4.5	4.5
MRP	4.7	4.2
<b>Total Financing Costs</b>	<b>9.2</b>	<b>8.7</b>
Funding	26.2	26.2
Non-specific grant income	5.5	5.1
<b>Net Revenue Stream</b>	<b>31.7</b>	<b>31.3</b>
<b>Ratio of Financing costs</b>	<b>29.0%</b>	<b>27.8%</b>

This indicator shows that the ratio of financing costs to net revenue streams is high, however what this does not 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 revenue generating 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 council 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

	25/26 Original Estimate £m	25/26 Revised Estimate £m
Income from long term investments	4.0	4.0
Income from assets	6.9	5.8
<b>Total Investment income</b>	<b>10.9</b>	<b>9.8</b>
Funding	26.2	26.2
Non-specific grant income	5.5	5.1
<b>Net Revenue Stream</b>	<b>31.7</b>	<b>31.3</b>
<b>Ratio of investment income</b>	<b>34.4%</b>	<b>31.4%</b>

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

	25/26 Original Estimate	25/26 Revised Estimate
Ratio of Financing costs	29.0%	27.8%
Ratio of Investment income	34.4%	31.4%
<b>Affordability ratio</b>	<b>(5.4%)</b>	<b>(3.6%)</b>
	<b>£m</b>	<b>£m</b>
<b>Affordability ratio in £</b>	<b>(1.7)</b>	<b>(1.1)</b>

The affordability ratio shows that the council has an overall net revenue income for capital financing.

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.