Appendix 1 – Capital Prudential Indicators Q1 2026/27

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 26/27. It reflects the original forecast from the Capital and Investment Strategy 2026/27, the current actual spent, as well as the current forecast year end position.

Table A1: Capital Expenditure

	26/27 Forecast as per Strategy £m	26/27 Current Position £m	26/27 Revised Forecast £m
Service Loans			
Capital Projects	17.9	2.9	14.2
New Finance Lease and PFI			
Total Capital Expenditure	17.9	2.9	14.2
Financed by:			
Capital Receipts	(1.8)		(1.8)
Grants and other contributions	(4.2)	(1.5)	(4.2)
S106 Grants	(2.3)		(2.3)
Revenue Contributions			
Donated Assets			
Total financing	(8.3)	(1.5)	(8.3)
Net financing need for year	**9.6**	**1.4**	**5.9**

The current and revised estimates have been taken from the Q1 forecasting. The current position includes purchases orders raised.

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

	26/27 Forecast as per Strategy £m	26/27 Forecast £m
Opening CFR	233.9	232.8*
Capital Spend	17.9	14.2
Resources used	(8.3)	(8.3)
MRP	(4.7)	(4.7)
Closing CFR	**238.8**	**234.7**

'* As per the 25/26 Outturn Prudential indicator closing balance

This reflects the reduction in capital expenditure.

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

	26/27 Forecast as per Strategy £m	26/27 Forecast £m
CFR	238.8	234.7
Gross borrowing	155.4	149.0
Under / (over) borrowing	**83.4**	**85.7**

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

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

	26/27 Forecast as per Strategy £m	26/27 Forecast £m
External Borrowings	155.4	149
Operational Boundary	**199**	**199**
Authorised Limit	**270**	**270**

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

	26/27 Forecast as per Strategy £m	26/27 Forecast £m
Interest costs on existing borrowing	4.4	4.4
MRP	4.7	4.7
Total Financing Costs	9.1	9.1
Funding	32.3	32.3
Non-specific grant income	0.0	0.0
Net Revenue Stream	32.3	32.3
Ratio of Financing costs	**28.3%**	**28.1%**

Note - % differences are due to rounding, as the underlying figures have been rounded to one decimal place.

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 of which relate to housing and regeneration.

Table A6: Ratio of Investment Income to Net Revenue stream

	26/27 Forecast as per Strategy £m	26/27 Forecast £m
Income from long term investments	4.0	4.1
Income from assets	5.5	5.5
Total Investment income	9.5	9.5
Funding	32.3	32.3
Non-specific grant income	0.0	0.0
Net Revenue Stream	32.3	32.3
Ratio of investment income	**29.3%**	**29.6%**

Note - % differences are due to rounding, as the underlying figures have been rounded to one decimal place.

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

	26/27 Forecast as per Strategy	26/27 Forecast
Ratio of Financing costs	28.3%	28.1%
Ratio of Investment income	29.3%	29.6%
Affordability ratio	**(1.0%)**	**(1.5%)**
	£m	**£m**
Affordability ratio in £	**(0.4)**	**(0.5)**

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

The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable, and sustainable.

The council will continue to monitor this ratio and report to senior management and members. Should the affordability ratio move adversely, the council will need to review whether this is sustainable and what actions may be required to mitigate the impact to the taxpayer as part of its budget management and Medium-Term Financial Strategy.