Item 23/08 Appendix B

# Capital and Treasury Management Prudential Indicators 2023-24 to 2026-27

The Capital Prudential Indicators are driven by the Authority's Capital Programme plans. The Capital Programme influences all borrowing decisions made by the Authority and the subsequent Treasury Management activity associated with this.

Capital expenditure

This indicator is a summary of the Authority's capital programme requirement as indicated in the Budget Report and Medium-Term Finance Plan (MTFP).

| | Actual 2021-22 £000 | Estimate 2022-23 £000 | Estimate 2023-24 £000 | Estimate 2024-25 £000 | Estimate 2025-26 £000 | Estimate 2026-27 £000 |
|---|---|---|---|---|---|---|
| **Capital Expenditure** | | | | | | |
| - Property/Estates | 505 | 1,928 | 1,715 | 7,305 | 1,678 | 1,382 |
| - Vehicles | 1,958 | 2,100 | 4,337 | 2,466 | 2,627 | 2,453 |
| - Equipment | 267 | 478 | 185 | 1,013 | 425 | 1,390 |
| - Information Comms Technology | 650 | 1,305 | 856 | 1,210 | 1,455 | 710 |
| **Total Capital Programme** | **3,380** | **5,811** | **7,093** | **11,994** | **6,185** | **5,935** |

Capital financing requirement

The capital financing requirement (CFR) measures the Authority's underlying need to borrow for capital purposes. It is simply the total historic capital expenditure, including financing that is implicit in Private Finance Initiative schemes and finance leases, which has not yet been paid for from either revenue or capital resources.

| | Actual 2021-22 £m | Estimate 2022-23 £m | Estimate 2023-24 £m | Estimate 2024-25 £m | Estimate 2025-26 £m | Estimate 2026-27 £m |
|---|---|---|---|---|---|---|
| **CFR at 1 April (start of year)** | **35.268** | **42.374** | **42.160** | **44.399** | **51.379** | **51.457** |
| Planned capital expenditure | 9.922 | 5.812 | 7.093 | 11.994 | 6.185 | 5.935 |
| Total financing | -0.496 | -3.246 | -1.713 | -1.684 | -2.517 | -1.143 |
| Statutory Charge to Revenue | -2.320 | -2.779 | -3.141 | -3.330 | -3.589 | -3.735 |
| **CFR at 31 March (end of year)** | **42.374** | **42.160** | **44.399** | **51.379** | **51.457** | **52.514** |

<u>Ratio of financing cost to the Net Revenue Stream</u>

This indicator shows the net cost of financing the capital programme as a percentage of the funding receivable from the Government and council tax payers, expressed as a ratio. The net cost of financing includes interest and principal repayments, netted off by interest receivable in respect of any cash investments held.

| | Actual 2021-22 | Estimate 2022-23 | Estimate 2023-24 | Estimate 2024-25 | Estimate 2025-26 | Estimate 2026-27 |
|---|---|---|---|---|---|---|
| **Ratio of financing costs to net revenue stream (incl. PFI)** | **5.96%** | **6.58%** | **6.86%** | **7.26%** | **7.61%** | **7.65%** |
| **Ratio of financing costs to net revenue stream (excl. PFI)** | **3.57%** | **4.24%** | **4.69%** | **5.17%** | **5.61%** | **5.74%** |

## TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2022-23 to 2025-26

The Prudential Code places a number of limits on the debt management of the Authority. These are to restrain the activity of the treasury function with certain limits to manage risk and reduce the impact of any adverse or sudden movements in interest rates. However, the limits have to include sufficient flexibility to allow costs to be minimised and performance maximised.

### Authorised Limit and Operational Boundary

The Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily, on occasions, due to variation in cash flow and the possibility of extra borrowing becoming available during the year as a result of Government supporting further schemes. The Authorised Limit is set at £2.5m above the Operational Boundary to provide some flexibility.

| | 2022-23 £m | 2023-24 £m | 2024-25 £m | 2025-26 £m | 2026-27 £m |
|---|---|---|---|---|---|
| **Authorised Limit is:-** | | | | | |
| - for borrowing | 20.869 | 24.261 | 32.225 | 34.187 | 37.148 |
| - for other long term liabilities | 9.970 | 9.321 | 8.710 | 8.097 | 7.453 |
| | **30.839** | **33.582** | **40.935** | **42.284** | **44.601** |
| **Operational Boundary is:-** | | | | | |
| - for borrowing | 18.869 | 22.261 | 30.225 | 32.187 | 35.148 |
| - for other long term liabilities | 9.470 | 8.821 | 8.210 | 7.597 | 6.953 |
| | **28.339** | **31.082** | **38.435** | **39.784** | **42.101** |

Performance will be measured against these limits periodically, and where necessary be reported to members should the limits be breached or require amendment.

## External debt

The Authority needs to ensure that its long term gross debt does not exceed, except in the short term, the projected Capital Financing Requirement (CFR) for the forthcoming year and the following two financial years. This prevents the Authority from over borrowing in the long term and thereby taking on excessive levels of debt.

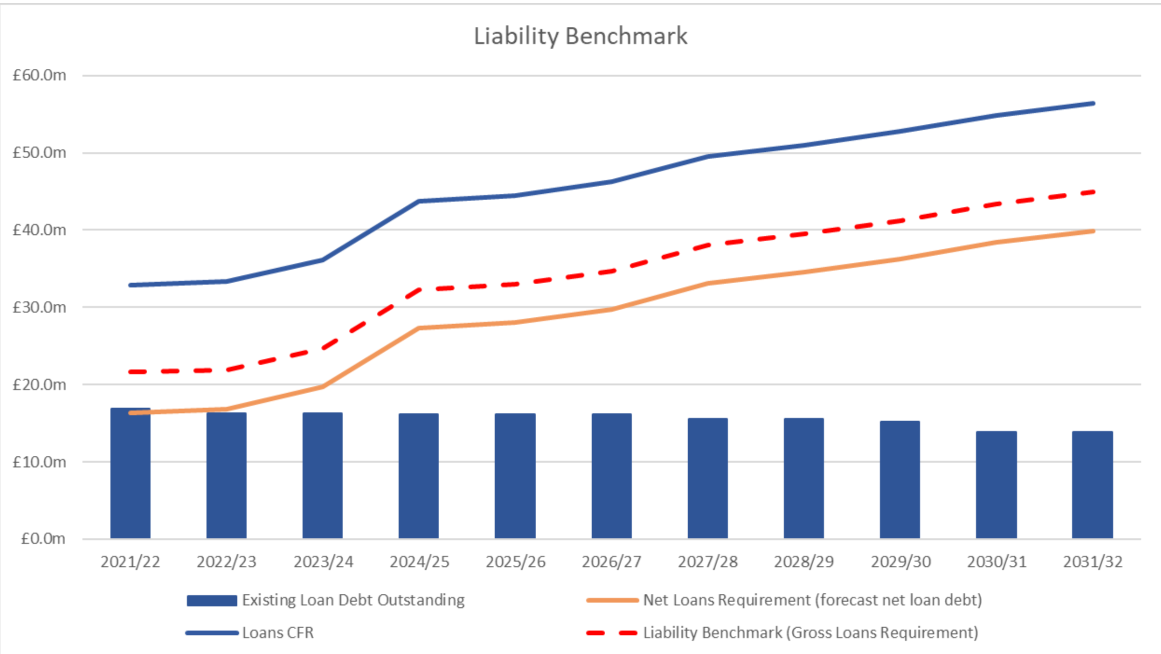
There are no difficulties envisaged in the current or future years in meeting this requirement. This view takes account of the current commitments, and existing capital plans.

The current estimates for gross debt are shown in the table below:

| | Estimate 2022-23 £m | Estimate 2023-24 £m | Estimate 2024-25 £m | Estimate 2025-26 £m | Estimate 2026-27 £m |
|---|---|---|---|---|---|
| Debt outstanding at 1st April | 16.869 | 18.261 | 22.225 | 30.187 | 32.148 |
| New Debt | 2.000 | 4.000 | 8.000 | 2.000 | 3.000 |
| Debt Repayment | -0.608 | -0.036 | -0.037 | -0.039 | -0.041 |
| **Debt outstanding** | **18.261** | **22.225** | **30.187** | **32.148** | **35.107** |
| PFI/Lease Liabilities | 9.470 | 8.821 | 8.210 | 7.597 | 6.953 |
| PFI/Leases written down | -0.649 | -0.611 | -0.613 | -0.644 | -0.671 |
| **PFI/Lease Liability outstanding** | **8.821** | **8.210** | **7.597** | **6.953** | **6.282** |
| **Gross Debt outstanding** | **27.081** | **30.435** | **37.784** | **39.101** | **41.389** |

## Liability benchmark

The Authority is required to provide a comparison its existing loan portfolio against committed borrowing needs in the capital programme. This is to provide evidence that it has a good understanding of both its existing debt maturity profile and how it may be exposed to future risk. The chart currently reflects that the Authority is under-borrowed and the treasury management strategy shows planned future borrowing to address this.



**Interest rate exposure and maturity of debt**

The code identifies three indicators that minimise exposure to fluctuations in interest rates and refinancing risks, and also cap the interest costs of borrowing to provide stability to this area of the Authority's finances, namely:

- Upper Limits for Variable Interest Rate Exposure - this identifies a maximum revenue cost of interest paid on variable debts;
- Upper Limits for Fixed Rate Interest Rate Exposure - this identifies a maximum revenue cost of interest paid on fixed rate debts and is intended to prevent the Authority from being locked into rates of interest that it cannot easily exit; and
- Maturity Structure of Borrowing - this is an indicator on longer term interest rate exposure, the amount of projected borrowing that is fixed rate maturing in each period as a % of the total projected borrowing that is fixed rate.

The following treasury indicators and limits are adopted:

Interest rate exposure

| | 2022-23 £m | 2023-24 £m | 2024-25 £m | 2025-26 £m | 2026-27 £m |
|---|---|---|---|---|---|
| Upper Limit – Fixed Rate Exposure | 100% | 100% | 100% | 100% | 100% |
| Upper Limit – Variable Rate Exposure | 10% | 10% | 10% | 10% | 10% |

Maturity structure of borrowing

| | Upper Limit % | Lower Limit % |
|---|---|---|
| Under 12 months | 40 | 0 |
| 12 mths and within 24 mths | 40 | 0 |
| 24 mths and within 5 years | 40 | 0 |
| 5 years and within 10 years | 50 | 0 |
| 10 years and above | 100 | 0 |

**Principal sums invested greater than one year**

In addition to the restrictions that the Authority places upon itself to maximise security, ensure liquidity and maximise yield, the prudential code sets limits on the maximum period of time monies can be invested for.

The Authority's current strategy is to not to invest any funds for a period greater than one year.