

APPENDIX B – Prudential and Investment Indicators

Capital Expenditure Estimates

Capital expenditure is incurred where the Council spends money on constructing or acquiring assets such as land and buildings, vehicles, plant and equipment, which will be used for more than one year, as well as larger scale maintenance works that maintain or enhance the Councils existing assets.

In 2021/22, the Council is planning capital expenditure of £46m as summarised below:

Table 1: Prudential Indicator: Actual and Estimates of Capital Expenditure

| | 2020/21 Actual £'000 | 2021/22 Projection £'000 | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 |
|-----------------------|----------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
| General Fund Services | 11,330 | 21,708 | 45,986 | 18,905 | 10,901 |
| Capital Investments | 30,847 | 18,842 | 0 | 0 | 0 |
| Total | 42,177 | 40,550 | 45,986 | 18,905 | 10,901 |

Capital Financing Requirement

The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing the Council's estimated CFR is as follows:

Table 2: Prudential Indicator – Actual and Estimated Capital Financing Requirement

| | 2020/21 Actual £'000 | 2021/22 Projection £'000 | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 |
|---|----------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
| CFR Balance B/F | 96,933 | 133,985 | 144,761 | 166,238 | 169,068 |
| Capital Expenditure | 42,177 | 40,550 | 45,986 | 18,905 | 10,901 |
| MRP | (951) | (1,209) | (1,510) | (1,593) | (1,672) |
| Capital Receipts used to replace Debt | (2,146) | (16,172) | (2,891) | (975) | 0 |
| Grants and Contributions | (2,028) | (12,392) | (20,109) | (13,507) | (6,763) |
| Total CFR | 133,985 | 144,761 | 166,238 | 169,068 | 171,534 |

Total Debt Position

Projected levels of the Council's total outstanding debt are shown below, compared with the CFR (as detailed above). Statutory guidance is that actual debt should

remain below the CFR, except in the short-term. As can be seen from the table the Council expects to comply with this in the medium term.

Table 3: Prudential Indicator – Gross Debt and the CFR

| | 2020/21 Actual £'000 | 2021/22 Projection £'000 | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 |
|------|----------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
| Debt | 98,000 | 122,000 | 145,976 | 150,807 | 155,273 |
| CFR | 133,985 | 144,761 | 166,238 | 169,068 | 171,534 |

Affordable Borrowing Limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach this limit. The Operational Boundary has been calculated based on the forecast CFR plus a tolerance for variations in spending plans during the year and possible volatility in availability of internal and external resources.

Table 4: Prudential Indicator – Authorised Limit and Operational Boundary for external debt

| | 2020/21 Actual £'000 | 2021/22 Projection £'000 | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 |
|-----------------------------------|----------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
| Operational Boundary: | | | | | |
| Borrowing | 120,000 | 130,000 | 160,000 | 160,000 | 160,000 |
| Leases | 15,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Total Operational Boundary | 135,000 | 150,000 | 180,000 | 180,000 | 180,000 |
| Authorised Limit: | | | | | |
| Borrowing | 140,000 | 140,000 | 170,000 | 170,000 | 170,000 |
| Leases | 20,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Total Authorised Limit | 160,000 | 165,000 | 195,000 | 195,000 | 195,000 |

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans/leases and capital debt repayment provisions are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 5: Prudential Indicator – Proportion of financing costs to net revenue stream

| | 2020/21 Actual | 2021/22 Projection | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|------------------------------------|-------------------|-----------------------|---------------------|---------------------|---------------------|
| Financing Costs £'000 | (2,133) | (3,062) | (2,904) | (2,991) | (1,644) |
| Proportion of Net Revenue Stream % | -14.04% | -18.83% | -14.73% | -16.11% | -8.51% |

Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. With an assumption that cash and investment balances are kept to a minimum level of £30m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 6: Prudential Indicator - Liability benchmark

| | 2020/21 Actual £'000 | 2021/22 Projection £'000 | 2022/23 Estimate £'000 | 2023/24 Estimate £'000 | 2024/25 Estimate £'000 |
|----------------------------|----------------------------|--------------------------------|------------------------------|------------------------------|------------------------------|
| Total CFR | 133,985 | 144,761 | 166,238 | 169,068 | 171,534 |
| Less: Usable Reserves | (69,437) | (42,777) | (27,213) | (21,555) | (17,146) |
| Less: Working Capital | (2,800) | (2,800) | (2,800) | (2,800) | (2,800) |
| Plus: Minimum Investments | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Liability Benchmark | 31,747 | 69,184 | 106,225 | 114,713 | 121,588 |

Total Investment Exposure

This indicator shows the Council's total exposure to potential investment losses. It includes amounts the Council is contractually committed to lend but have yet to draw down and the guarantees the Council has issued.

Table 7: Total Investment Exposure

| | 01/04/2021 Actual £'000 | 31/03/2022 Estimate £'000 | 31/03/2023 Estimate £'000 | 31/03/2024 Estimate £'000 |
|---|-------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Treasury Management Investments - Strategic Funds | 23,500 | 30,000 | 30,000 | 30,000 |
| Treasury Management Investments - Other | 2,480 | 2,000 | 2,000 | 2,000 |
| Service Investments - Loans | 4,503 | 4,913 | 4,412 | 3,911 |
| Commercial Investment - Property | 79,809 | 96,699 | 96,699 | 96,699 |
| Other investments - SPV | 31,555 | 42,958 | 40,634 | 37,204 |
| Total Investments | 141,847 | 176,570 | 173,745 | 169,814 |
| Guarantees Issued on Pension Liabilities | 496 | 496 | 496 | 496 |
| Total Commitments and Guarantees | 496 | 496 | 496 | 496 |
| Total Exposure | 142,343 | 177,066 | 174,241 | 170,310 |

How Investments are funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, it is difficult to comply with this guidance. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of need.

Table 8: Investments funded by Borrowing

| | 01/04/2021 Actual £'000 | 31/03/2022 Estimate £'000 | 31/03/2023 Estimate £'000 | 31/03/2024 Estimate £'000 |
|----------------------------------|-------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Treasury Management Investments | 0 | 0 | 0 | 0 |
| Service Investments - Loans | 4,503 | 4,913 | 4,412 | 3,911 |
| Commercial Investment - Property | 79,809 | 96,699 | 96,699 | 96,699 |
| Other investments - SPV | 31,555 | 42,958 | 40,634 | 37,204 |
| Total Funded by Borrowing | 115,867 | 144,570 | 141,745 | 137,814 |

Rate of Return Received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 9: Investment Net Rate of Return

| | 01/04/2021 Actual % | 31/03/2022 Estimate % | 31/03/2023 Estimate % | 31/03/2024 Estimate % |
|----------------------------------|------------------------|--------------------------|--------------------------|--------------------------|
| Treasury Management Investments | 2.77% | 2.00% | 2.00% | 2.00% |
| Service Investments - Loans | 1.98% | 2.72% | 2.72% | 2.72% |
| Commercial Investment - Property | 3.71% | 3.50% | | |
| Other Investments - SPV | 5.00% | 6.00% | 6.00% | 6.00% |
| Total All Investments | 13.46% | 3.56% | 3.56% | 3.56% |

Other Investment Indicators

The Government's investment guidance suggests authorities should consider a range of other quantitative indicators to show risks and opportunities in respect of investment and borrowing. The table below summarises three additional indicators shown by this Council.

Table 10: Other investment indicators

| | 01/04/2021 Actual | 31/03/2022 Estimate | 31/03/2023 Estimate | 31/03/2024 Estimate |
|--|----------------------|------------------------|------------------------|------------------------|
| Commercial Income to Net Service Expenditure % | 37.82% | 50.49% | 37.59% | 30.88% |
| Investment Cover Ratio | 1.43 | 1.37 | 1.25 | 1.19 |
| Loan to Value Ratio | 70.45% | 69.72% | 78.07% | 81.25% |

Commercial Income to Net Service Expenditure: Indicates dependence on commercial income to deliver core services.

Investment cover ratio: The total net income from commercial property investment compared to the interest expense relating to investment properties funded by borrowing.

Loan to value ratio: The amount of debt compared to the total assets value on the Council's balance sheet.

Voluntary Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| Credit Risk Indicator | Target |
|---------------------------------|--------|
| Portfolio Average Credit Rating | 5 |

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

| Liquidity Risk Indicator | Target |
|--------------------------------------|--------|
| Total cash available within 3 months | £10m |

Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

| Interest Rate Risk Indicator | Limit |
|---|----------|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | £200,000 |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £150,000 |

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The limits set for each category within this indicator is wide since the indicator is only to cover the risk of replacement loans being unavailable, not interest rate risk. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits on the maturity structure of borrowing will be:

| Refinancing Rate Risk Indicator | Upper limit | Lower limit |
|---------------------------------|-------------|-------------|
| Under 12 months | 100% | 100% |
| 12 months and within 24 months | 100% | 100% |
| 24 months and within 5 years | 100% | 100% |
| 5 years and within 10 years | 100% | 100% |
| 10 years and above | 100% | 100% |

Principal Sums Invested For Periods Longer Than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| Price Risk Indicator | 2022/23 | 2023/24 | 2024/25 |
|---|---------|---------|---------|
| Limit on principal invested beyond year end | £25m | £25m | £25m |