PRUDENTIAL INDICATORS AS AT END OF SEPTEMBER 2024

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out several indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported quarterly.

1. Capital Financing Requirement

The Authority's cumulative outstanding 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.

Capital Financing Requirement	31-Mar-24 Actual £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M	31-Mar-28 Forecast £M
Balance Brought forward	342.57	345.36	464.63	473.80	488.93
New Borrowing	15.14	133.07	29.37	34.95	6.41
MRP	(8.69)	(9.46)	(16.35)	(16.25)	(17.35)
Movement in Other Liabilities	(3.66)	(4.34)	(3.85)	(3.57)	(4.12)
Total General Fund Debt	**345.36**	**464.63**	**473.80**	**488.93**	**473.87**
HRA	182.05	210.41	248.09	260.88	272.82
Total CFR	**527.41**	**675.04**	**721.89**	**749.81**	**746.69**
Estimated Debt	366.05	516.12	560.07	582.72	577.72
Under / (Over) Borrowed	**161.36**	**158.92**	**161.82**	**167.09**	**168.97**

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt (including PFI, leases and HCC Transferred debt) does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement.

The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

Gross Debt	31/03/2024 Actual £M	31/03/2025 Forecast £M	31/03/2026 Forecast £M	31/03/2027 Forecast £M	31/03/2028 Forecast £M
Total Debt	**366.05**	**516.12**	**560.07**	**582.72**	**577.72**
Capital Financing Requirement	**527.41**	**675.04**	**721.89**	**749.81**	**746.69**
Under / (Over) Borrowed	**161.36**	**158.92**	**161.82**	**167.09**	**168.97**

3. Debt and the Authorised Limit and Operational Boundary

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2024/25 to date; borrowing at its peak was £316.60M plus other deferred liabilities of £53.45M.

4. Net Income from Commercial Investment to Net Revenue Stream (NRS)

The Authority's income from commercial investments as a proportion of its net revenue stream has been and is expected to be as indicated below. This shows that the Authority is not over dependent on income from investments.

Ratio of Net Income from Commercial Investment to NRS	2023/24 Actual £M	2024/25 Forecast £M	2025/26 Forecast £M	2026/27 Forecast £M	2027/28 Forecast £M
Total net income from commercial investments	6.84	7.03	7.28	7.28	7.28
Net Revenue Stream GF	203.73	239.17	290.03	305.84	317.76
Proportion of NRS	**3.36%**	**2.94%**	**2.51%**	**2.38%**	**2.29%**

5. Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (MRP) are charged to revenue. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio was updated, as part of the MTFS report to Council in July 2023 and is currently set at 11% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes, it includes the cost of long term liabilities but now excludes investment income in line with the revised code.

Due to a potential increase in borrowing costs to fund EFS, this indicator needs to be monitored as likely to exceed the 11% from 2025/26, depending on the amount of Exceptional Financial Support (EFS). The net revenue stream may also be reduced as a result of the Social Care Grant being reclassified as a ring-fenced grant and the budget being treated as directorate income, leading to an increase in the percentage, this virement is subject to full council approval in November. The table below shows the likely position based on the proposed capital programme and the assumption that the full EFS of £121.6M will be taken at the end of 2024/25.

This indicator is not so relevant for the HRA, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2023/24 Actual £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000
Financing Costs Exc Interest Received	26,636	29,137	44,197	45,930	48,503
Net Revenue Stream Total	279,032	324,432	330,445	334,914	341,614
Total	**9.55%**	**8.98%**	**13.38%**	**13.71%**	**14.20%**

Ratio of Financing Costs to Net Revenue Stream	2023/24 Actual	2024/25 Forecast %	2025/26 Forecast %	2026/27 Forecast %	2026/27 Forecast %
General Fund	10.29	9.35	14.66	14.84	15.35
HRA	7.55	7.95	9.86	10.72	11.19
Total	**9.55**	**8.98**	**13.38**	**13.71**	**14.20**

6. Liability Benchmark

This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the preferred minimum level of £48M required to manage day-to-day cash flow.

	31-Mar-24 Actual £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M	31-Mar-28 Forecast £M
Loans CFR	**473.96**	**625.92**	**676.63**	**708.13**	**709.13**
Less Balance sheet Resources	(186.69)	(183.22)	(186.08)	(191.37)	(191.37)
Plus Minimum Investments	35.86	48.00	48.00	48.00	48.00
Liability Benchmark	**323.13**	**490.70**	**538.55**	**564.76**	**565.76**
Less Committed External Borrowing	(312.60)	(282.00)	(265.32)	(248.64)	(231.96)
Minimum Borrowing Need	**10.53**	**208.70**	**273.23**	**316.11**	**333.79**
Less HRA Borrowing Liability	(0.71)	0.00	(78.07)	(94.76)	(110.59)
GF Minimum Borrowing Need / (Investment)	**9.82**	**208.70**	**195.16**	**221.35**	**223.20**

7. Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit %	Lower Limit %	30.09.24 Actual £M	30.09.24 Actual %	Complied?
Under 12 months	0	50	5.30	2	Yes
12 months and within 24 months	0	50	10.60	4	Yes
24 months and within 5 years	0	50	31.80	11	Yes
5 years and within 10 years	0	55	60.50	21	Yes
10 years and within 20 years	0	60	30.25	11	Yes
20 years and within 40 years	0	60	144.84	50	Yes
Over 40 years	0	75	0.00	0	Yes
Uncertain Date**	0	5	4.00	1	Yes
Total			**287.29**	**100**	

8. Long-term Treasury Management Investments

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £30M. The actual principal sum currently invested is £28.02M and consists of £27M in CCLA property funds (see Appendix 3 paragraphs 21 - 24 for more details) and £1M EIB bond which will mature on 15th April 2025.

9. Security

The Authority 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.

	2023/24 Target	Q1 Actual	Complied?
Portfolio average credit Rating	A	A+	Yes

10. Liquidity

The Authority 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 or can borrow without giving prior notice.

We held £16.78M of liquid cash at end of September and although this is below the target level we have been able to borrow to meet expected cash flows. Based on current cash flow, in order to maintain minimum balance and meet outgoing commitments we expect to take further borrowing before year end.

	2024/25 Target	Q2 Actual	Complied?
Total cash available within 3 months	£20M	£16.78M	Yes
Total sum borrowed in past 6 months without prior notice		£39M	Yes

11. Interest Rate Exposures

This is a voluntary indicator which is set to control the Authority's exposure to interest rate risk.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

For context, the changes in interest rates during the quarter were:

	01/04/24	30/09/24
Bank Rate	5.25%	5.00%
1-year PWLB certainty rate, maturity loans	5.36%	4.95%
5-year PWLB certainty rate, maturity loans	4.68%	4.55%
10-year PWLB certainty rate, maturity loans	4.74%	4.79%
20-year PWLB certainty rate, maturity loans	5.18%	5.27%
50-year PWLB certainty rate, maturity loans	5.01%	5.13%

We did not take out any new long loans during the period and have budgeted new long-term borrowing at 5.00%. The benchmark was based on a 1% increase of forecast borrowing as of 31st March 2025.

Borrowing need has increased since the indicator was approved, as a result of being awarded EFS in the form of a capitalisation direction, of up to £121.58M, and will need be reset prior to any associated borrowing being undertaken.

The forecast reflects the current borrowing need for the year, prior to any borrowing taken in year, of £198.16M.

Interest rate risk indicator	2024/25 Benchmark £M	2024/25 Forecast £M
Upper limit on one-year revenue impact of a 1% rise in interest rates	1.5M	1.98M
Upper limit on one-year revenue impact of a 1% fall in interest rates	(1.5M)	(1.98M)

12. Summary

As indicated in this report the Council has operated within the limits set by the Prudential Indicators during this quarter.