

2. Prudential Indicators for Capital Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Estimated Capital Expenditure

This indicator shows the gross capital spend included in the relevant capital plans.

Capital Expenditure						
	2023/24 Actual £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's
General Services						
Children, Young People & Estates	£ 26,241	£ 21,547	£ 52,177	£ 101,332	£ 63,822	£ 4,572
Asset Management	£ 10,897	£ 15,736	£ 18,639	£ 12,063	£ 12,160	£ 8,800
Transport, Energy & Infrastructure	£ 2,340	£ 3,841	£ 3,370	£ 5,308	£ 2,233	£ 428
Regeneration & Development	£ 6,263	£ 13,706	£ 17,648	£ 12,097	£ 10,509	£ -
Other	£ 1,915	£ 1,623	£ 1,257	£ 697	£ 698	£ 621
Provision for return of contingencies	£ -	£ (2,539)	£ (1,411)	£ (2,327)	£ (3,287)	£ (2,236)
Total General Services	£ 47,656	£ 53,913	£ 91,680	£ 129,170	£ 86,134	£ 12,185
Total HRA	£ 50,412	£ 47,429	£ 80,242	£ 72,003	£ 44,139	£ 28,826
Combined Total	£ 98,068	£ 101,342	£ 171,922	£ 201,173	£ 130,273	£ 41,011

2.2 Financing of Capital Expenditure

This indicator shows how the Capital Expenditure forecasts are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure and Available Financing						
	2023/24 Actual £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's
Capital Expenditure						
General Services	£ 47,656	£ 53,913	£ 91,680	£ 129,170	£ 86,134	£ 12,185
HRA	£ 50,412	£ 47,429	£ 80,242	£ 72,003	£ 44,139	£ 28,826
Total	£ 98,068	£ 101,342	£ 171,922	£ 201,173	£ 130,273	£ 41,011
Financed by:						
Capital receipts	£ -	£ -	£ -	£ -	£ -	£ -
Capital grants	£ 33,539	£ 25,462	£ 22,467	£ 22,602	£ 18,712	£ 13,774
Capital reserves	£ -	£ -	£ -	£ -	£ -	£ -
Developer/Other Contributions	£ 88	£ 6,578	£ 13,606	£ 17,405	£ 4,767	£ 4,031
Net financing need for the year	£ 64,441	£ 69,303	£ 135,849	£ 161,165	£ 106,795	£ 23,206

2.3 Estimated Capital Financing Requirement

This indicator measures the Council's maximum underlying need to borrow for capital purposes and other long term liabilities over the next three years.

Capital Financing Requirement (CFR)						
	2023/24 Actual £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's
Capital Financing Requirement						
CFR – General Services	£ 169,764	£ 202,314	£ 261,535	£ 354,416	£ 421,043	£ 415,061
CFR – HRA	£ 246,524	£ 277,473	£ 343,422	£ 399,595	£ 426,052	£ 440,130
CFR – PFI Schemes	£ 88,739	£ 84,815	£ 80,661	£ 76,277	£ 71,663	£ 66,819
Total CFR	£ 505,027	£ 564,602	£ 685,618	£ 830,288	£ 918,758	£ 922,010
Movement in CFR	£ 102,163	£ 59,575	£ 121,016	£ 144,670	£ 88,470	£ 3,251
Movement in CFR represented by						
Net financing need for the year (previous table)	£ 64,441	£ 69,303	£ 135,849	£ 161,165	£ 106,795	£ 23,206
MEL Shareholder Injection	£ -	£ 4,590	£ -	£ -	£ -	£ -
Less Scheduled Debt Amortisation	£ (9,494)	£ (10,394)	£ (10,679)	£ (12,111)	£ (13,711)	£ (15,111)
Less net PFI Finance Lease Principal Payments	£ (3,694)	£ (3,924)	£ (4,154)	£ (4,384)	£ (4,614)	£ (4,844)
Movement in CFR	£ 51,253	£ 59,575	£ 121,016	£ 144,670	£ 88,470	£ 3,251

3. Prudential Indicators for Prudence

3.1 Net Borrowing Requirement

This indicator shows the amount of external borrowing required to finance the current debt outstanding on capital projects.

Net Borrowing Requirement						
	2023/24 Actual £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's
External Debt						
Debt at 1 April	£ 321,753	£ 340,871	£ 394,445	£ 528,600	£ 684,328	£ 777,161
Actual/Expected change in Debt	£ 19,118	£ 53,574	£ 134,155	£ 155,728	£ 92,833	£ 8,054
Other long-term liabilities (OLTL) at 1 April	£ 92,433	£ 88,739	£ 84,815	£ 80,661	£ 76,277	£ 71,663
Actual/Expected change in OLTL	£ (3,694)	£ (3,924)	£ (4,154)	£ (4,384)	£ (4,614)	£ (4,844)
Actual/Expected Gross Debt at 31 March	£ 429,610	£ 479,260	£ 609,261	£ 760,605	£ 848,824	£ 852,035
The Capital Financing Requirement	£ 505,027	£ 564,602	£ 685,618	£ 830,288	£ 918,758	£ 922,010
Under / (over) borrowing	£ 75,417	£ 85,342	£ 76,357	£ 69,683	£ 69,934	£ 69,975
Deposits						
Cash & Cash Equivalents	£ 26,619	£ 20,000	£ 20,000	£ 20,000	£ 20,000	£ 20,000
Short-Term Investments	£ 30,000	£ -	£ -	£ -	£ -	£ -
Total Deposits	£ 56,619	£ 20,000	£ 20,000	£ 20,000	£ 20,000	£ 20,000

4. Prudential Indicators for External Debt

4.1 Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed and will be the focus of day to day treasury management. Typically, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the value of the CFR for General Services and HRA combined, over the current financial year and the following 4 financial years (2024/25 to 2028/29); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

Operational Boundary					
	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	2028/29 Estimate £000's
Operational Boundary - Borrowing	£ 479,787	£ 604,957	£ 754,011	£ 847,095	£ 855,191
Operational Boundary - Other long term liabilities	£ 84,815	£ 80,661	£ 76,277	£ 71,663	£ 66,819
Total	£ 564,602	£ 685,618	£ 830,288	£ 918,758	£ 922,010

Should the Operational Boundary be breached, for example as a result of a decision taken to borrow in advance (should market conditions indicate that it is prudent to do so), this will be reported to Council at the next available opportunity.

4.2 Authorised Limit of Total External Debt

This indicator sets the limit for total external debt.

The Authorised Limit for Borrowing for the 2025/26 financial year has been calculated to equate to the maximum value of the Underlying Borrowing Requirement in 2025/26. This equates to £604.957 million as outlined below.

Authorised Limit for Borrowing	
	£000's
CFR - General Services at 31 March 2026	£ 261,535
CFR - HRA at 31 March 2026	£ 343,422
Authorised Limit for Borrowing	£ 604,957

5. Prudential Indicators for Treasury Management

5.1 Upper limits on Fixed and Variable Interest Rates

This indicator limits the amount of external debt that may be held at fixed or variable rates. These limits are proposed to be as follows:-

Upper Limits on Exposure to Fixed and Variable Interest Rates 2025/26			
Interest rate exposures			Upper Limit
Limits on fixed interest rates based on gross debt			100.00%
Limits on variable interest rates based on gross debt			30.00%
Limits on fixed interest rates based on investments			100.00%
Limits on variable interest rates based on investments			100.00%

5.2 Maturity Structure of Borrowing

This indicator sets the upper and lower limits of the time scales within which external debt may be held.

The Treasury Management Code of Practice requires that LOBO's with a call date in the next 12 months are classified as short-term borrowing rather than longer-term (10 year+) borrowing.

In addition, the Code also recommends that where an authority's debt is typically very long term (i.e. for a period of greater than 10 years), that authorities should break down the period in excess of 10 years into several ranges, for example 10 to 20 years, 20 to 30 years, etc.

With the above in mind, the proposed upper and lower limits for each maturity band are shown below, with the overall aim to ensure a spreading approach to avoid a cluster of high value loans maturing/requiring refinancing within a short period of time.

Maturity Structure of Borrowing 2025/26		
Maturity structure of fixed interest rate borrowing 2025/26	Lower	Upper
Under 12 months	0.00%	50.00%
12 months to 2 years	0.00%	50.00%
2 years to 5 years	0.00%	50.00%
5 years to 10 years	0.00%	50.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years and above	0.00%	50.00%
Maturity structure of variable interest rate borrowing 2025/26	Lower	Upper
<i>Under 12 months</i>	0.00%	30.00%
<i>12 months to 2 years</i>	0.00%	30.00%
<i>2 years to 5 years</i>	0.00%	30.00%
<i>5 years to 10 years</i>	0.00%	30.00%
<i>10 years to 20 years</i>	0.00%	30.00%
<i>20 years to 30 years</i>	0.00%	30.00%
<i>30 years to 40 years</i>	0.00%	30.00%
<i>40 years to 50 years</i>	0.00%	30.00%
<i>50 years and above</i>	0.00%	30.00%

5.4 Total Principal Sums Invested for Periods Longer than 365 Days

This indicator relates to the total level of investments held for periods longer than 365 days.

Principal Sums Invested for > 365 Days		
Limit		£70m

The current strategy as outlined in the body of these reports is to continue to cash-back the Council's balance sheet reserves. It is expected that the majority of this will be in the form of fixed term deposits and/or certificates of deposit. Given expected reserve forecasts and the current interest rate environment, in particular the short-medium term forecast for the Council's Capital Fund and HRA Reserve, the limit for principal sums invested for > 365 days has been retained at £70m.

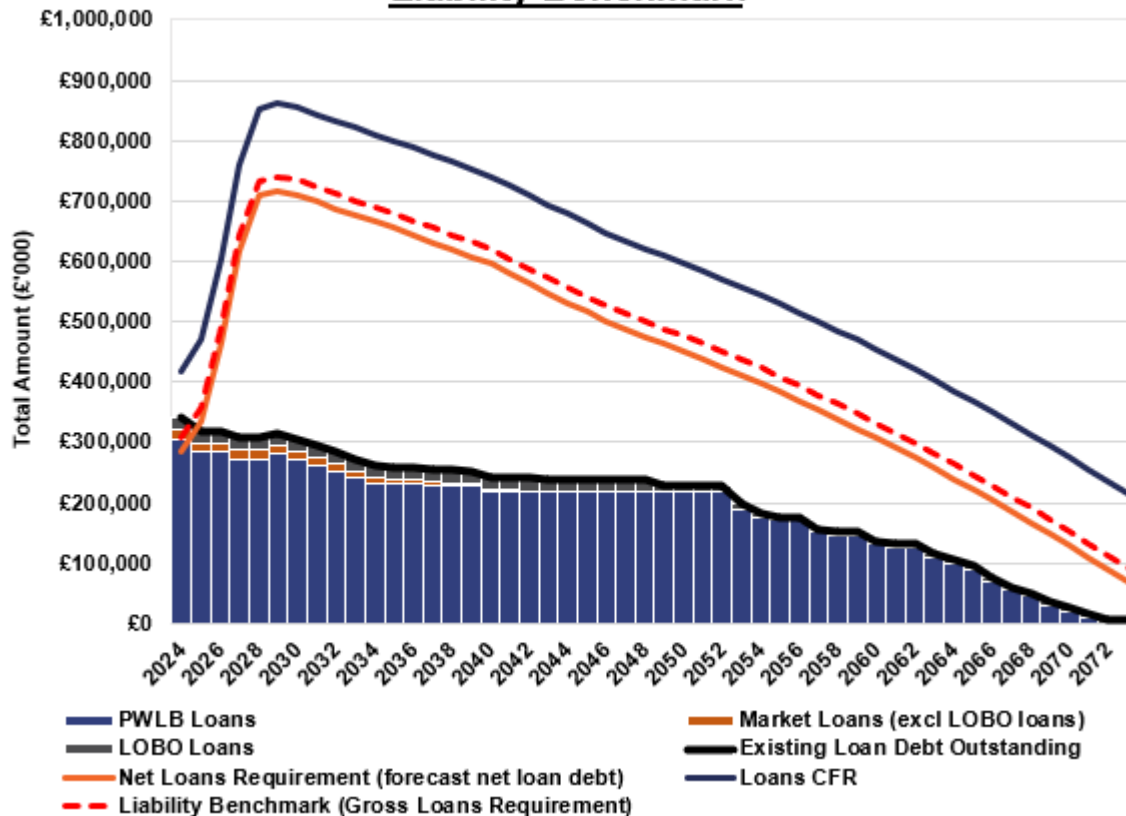
For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts and money market funds.

5.5 Liability Benchmark

The "Liability Benchmark" identifies future borrowing needs across the short, medium and longer terms, against the maturity profile of the Council's existing loan portfolio.

The Council's Liability Benchmark in graphical format is as shown below.

Liability Benchmark



There are four components to the Liability Benchmark: -

- 1 **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years – shown as the stacked bar elements of the figure above.
- 2 **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments.
- 3 **Net loans requirement:** this shows the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows (drawdowns/enhancement of reserves) forecast.
- 4 **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity/working capital allowance.

The Liability Benchmark Indicator identifies the Council's expected future capital financing requirement, as driven by the Council's approved Capital Plans – and therefore the Council's future borrowing needs; along with how this matches to the existing debt maturity profile. It is therefore a key tool to support the financing risk management of the capital financing requirement.

As can be noted from the figure above, the Council has a significant borrowing requirement (which equates to £448.393 million) in the short-medium term, arising as a direct result of the Council's approved Capital Plans. The proposed approach to securing this borrowing need for the 2025/26 financial year is outlined in the main body of this report, Section 4.3.

The Liability Benchmark also outlines the profile of the Council's CFR over the medium-long term, against the Council's existing debt portfolio maturity profile. As can be seen from the figure above, the profile of the CFR movements in the medium-long term broadly matches the movements in the Council's external debt portfolio over this period.

The Debt Liability Benchmark will assist the Council with plotting the tenor of borrowing to finance the Council's approved capital plans that is undertaken in the remainder of 2024/25 and the forthcoming 2025/26 period, to ensure that this aligns with the Council's future expected CFR profile and Liability Benchmark projections, taking into account the profile of existing loan maturities as identified in the figure above.