CAPITAL PRUDENTIAL INDICATORS 2022-23 to 2025-26

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

The Local Government Act 2003 requires all local authorities to have regard to the Prudential Code for Capital Finance. The Code states that a soundly formulated capital programme must be driven by the desire to provide high quality, value for money public services. As a consequence, the Code recognises that in making its decisions to make capital investment, the Council must have regard to:

- affordability (e.g., implications for Council Tax);
- prudence and sustainability (e.g., implications for external borrowing);
- option appraisal;
- asset management planning;
- strategic planning for the Council;
- achievability of the forward plan.

The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. To demonstrate local authorities have fulfilled these objectives, the Code sets out the indicators that must be used and the factors that must be taken into account.

Under the Prudential Code for Capital Finance in Local Authorities, local authorities determine their own level of capital expenditure.

Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans.

Capital Expenditure	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Adult Services	2.355	8.192	4.000	2.000	2.000
Business & Community Development	-	0.132	-	-	-
Children's Social Care	0.146	1.937	-	-	-
Economy and Regeneration	29.203	129.369	88.995	22.133	37.562
Finance	31.685	30.136	14.536	11.000	11.000
Fire and Rescue Service	2.159	1.999	1.182	1.170	1.237
Housing - GF	1.960	0.802	-	-	-
Housing - HRA	14.190	27.639	22.348	24.733	13.113
IT	8.319	2.660	0.750	0.600	0.850
Leisure Services	15.440	15.447	-	-	-
Neighbourhood Services	7.437	6.496	3.452	7.850	-
Property Services	6.720	6.935	10.230	9.609	-
Renewable Energy	5.026	11.551	2.000	-	-
Schools	29.011	22.602	47.732	63.275	6.733
Technical Services / Local Services	54.510	41.460	38.963	24.831	24.831
Total Capital Expenditure	**208.161**	**307.357**	**234.188**	**167.201**	**97.326**

The table below summarises how the above capital expenditure is being financed.

Capital Funding	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Capital Receipts	7.523	4.716	3.650	2.650	2.655
External Grants	79.430	150.488	102.582	36.376	44.605
GF Borrowing	109.076	126.983	109.203	94.466	34.711
GF Contributions	1.300	3.437	0.755	13.076	3.197
HRA Borrowing	-	-	3.750	11.250	-
HRA Contributions	10.832	21.733	14.248	9.383	12.158
Total Capital Funding	**208.161**	**307.357**	**234.188**	**167.201**	**97.326**

Capital Financing Requirement - the Council's borrowing need

The Capital Financing Requirement (CFR) is the Council's underlying need to borrow for a capital purpose.

All the capital assets the Council has ever bought will have been in part paid for by capital receipts, grants and revenue contributions. The remaining part which has not yet been paid for through revenue or capital resources is described as the CFR. In this respect it could be viewed like a mortgage. You have paid for the house (assets), have some equity in it (capital receipts etc.), but have not yet paid off the mortgage (CFR).

The CFR increases each year by capital spend, and decreases by both capital financing (capital receipts, grants etc.) and an annual revenue charge called the Minimum Revenue Provision (MRP).

The CFR shown below, which includes other long-term liabilities such as PFI and leasing arrangements, is increasing by £175.210 million over the next four years and is shown below.

The Council is asked to approve the following CFR projections.

Capital Financing Requirement (CFR)	**2020-21 Actual £m**	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**
General Fund CFR	931.846	1,006.235	1,074.518	1,141.349	1,181.515	1,166.445
HRA CFR	104.871	104.871	104.871	108.621	119.871	119.871
Overall CFR	**1,036.717**	**1,111.106**	**1,179.389**	**1,249.970**	**1,301.386**	**1,286.316**
Movement in Year		74.389	68.283	70.581	51.416	(15.070)

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of financing costs to net revenue stream	2020-21 Actual %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %
General Fund	7.2	9.0	15.3	10.7	13.3	12.2
HRA	10.5	10.9	10.4	10.1	10.1	9.9

The estimates of financing costs include current commitments and the proposals in the budget report.

Net Income from Commercial and Service Investments as % of net revenue stream

This new indictor identifies the authority's reliance on income from Commercial and Service Investments such as that loans to Advance Northumberland, Northumbria Healthcare NHS Foundation Trust and Newcastle Airport etc. In Northumberland's case, all of the income is in relation to interest received on loans provided to third parties in support of the Council's service and policy objectives. These facilities are not provided to generate a financial return or gain for the Council.

Ratio of Income from Commercial and Service Investments to net revenue stream	2020-21 Actual %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %	2025-26 Estimate %
Overall	4.3	4.4	4.3	4.5	4.6	4.5

Authorised Limit for External Debt

This is an important indicator, as it is part of the Local Government Act 2003 requirements.

The Authorised Limit is the maximum amount the Council could afford to borrow in the short term but would not be sustainable in the long term. It should be set at the expected borrowing position, plus any expectations for borrowing in advance of need, plus some headroom to cope with the unexpected.

It is set as an assessment of how much the Council may need to borrow above expectations if an unforeseen incidence happened. This could be the delay in a large capital receipt, the failure of the Council Tax system etc., something that upsets the cash flow but will be corrected over time.

So the Authorised Limit, if set properly, is an alarm mechanism that, if breached, means there is a problem with the Council's finances.

The Council is asked to approve the following Authorised Limit:

Authorised Limit	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Borrowing	1,252.818	1,308.596	1,315.980	1,323.196
Other long-term liabilities	76.603	77.561	72.173	66.339
Total	**1,329.421**	**1,386.157**	**1,388.153**	**1,389.535**

Operational Boundary for External Debt

Whilst the Authorised Limit is an overall cap on borrowing, the Operational Boundary is where the Council would expect its borrowings to be. It is only a guide and may be breached or undershot without significant concern, as borrowings will be driven by economic and market considerations as well as interest rates.

The Council is asked to approve the following Operational Boundary:

Operational Boundary	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Borrowing	1,044.015	1,090.496	1,096.650	1,102.663
Other long-term liabilities	63.836	64.634	60.144	55.282
Total	**1,107.851**	**1,155.130**	**1,156.794**	**1,157.945**

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Limit on Investments for longer than 365 days.

Maturity Structure of Borrowing

Setting limits for the maturity structure of debt ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of maturing debt is not ending at a time when interest rates for refinancing the debt may be high.

Maturity Structure of fixed rate borrowing during 2022-23	Upper Limit %	Lower Limit %
Under 12 months	25	0
1 year - 2 years	40	0
2 years within 5 years	60	0
5 years within 10 years	80	0
10 years and above	100	0

Maturity Structure of variable rate borrowing during 2022-23	Upper Limit %	Lower Limit %
Under 12 months	35	0
1 year - 2 years	40	0
2 years within 5 years	60	0
5 years within 10 years	80	0
10 years and above	100	0

Investments for periods longer than 365 days

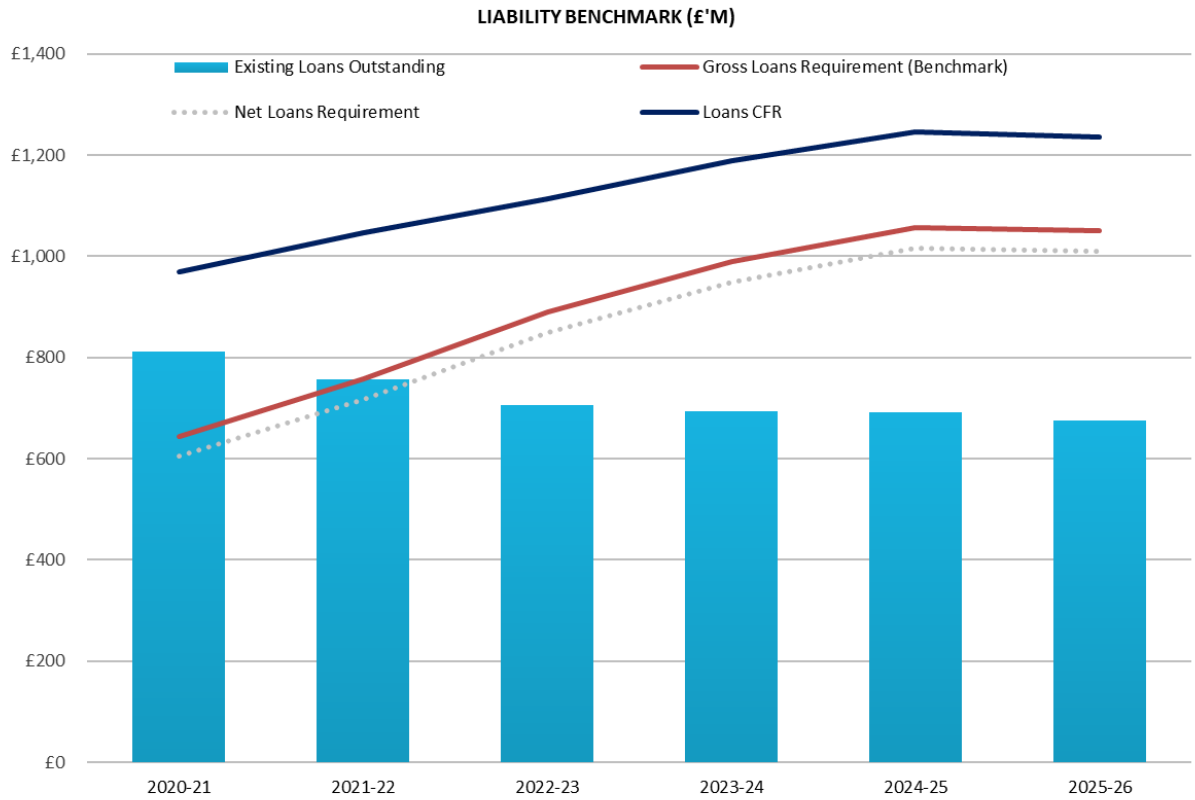
These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator:

Maximum principal sums invested which can be held for over 365 days	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
Principal sums invested > 365 days	120	120	120	120

Liability Benchmark

The liability benchmark is a graphical projection of the amount of loan debt outstanding which the authority needs each year into the future, in order to fund its existing debt liabilities, planned prudential borrowing and other cash flows. In essence it compares the existing external borrowing (i.e. loans outstanding) against the future 'gross loans requirement' (i.e. need); with the gap representing the future need to borrow (externally). It should be noted that the 'loans requirement' figures assume all available investment balances (bar, in the case of the gross loans requirement, a provision to cover day-to-day liquidity / cash flow requirements) will be used to support the borrowing need, in lieu of borrowing externally.



Supplementary Indicator - Internal Borrowing

The following indicator identifies the estimated level of internal borrowing, i.e., the extent to which internal / investment balances are being used in lieu of borrowing externally (to fund the CFR, or overall need to borrow).

Internal Borrowing	2022-23 %	2023-24 %	2024-25 %	2025-26 %
Estimated % of CFR (exc. PFI) funded from internal borrowing – Average for Year	21.5	18.2	15.6	14.9

Please note, the above indicator is not specifying a limit. It simply identifies, for information purposes, the assumed internal borrowing position that has been used in calculating the revenue budget implications for the Council's treasury management activity.

The indicator identifies the interest rate risk exposure on this element of the borrowing need / requirement, i.e., beyond that attributable to actual external borrowing. The higher the percentage, the greater the potential risk.

The following table identifies the notional additional cost should the above internal borrowing need to be externalised – i.e., replaced with actual external loans:

Internal Borrowing – Notional Replacement Cost	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**	**2025-26 £m**
Notional cost of externalising internal borrowing	5.243	4.435	3.578	3.012

Note the above (notional) cost is based on the estimated average external borrowing rate for each year. Again, the above indicator is not specifying a limit. It is simply for information purposes.